

The Development Path Less Traveled

The Experience of Rwanda

*Laure Redifer, Emre Alper, Neil Meads, Tunc Gursoy,
Monique Newiak, Alun Thomas, and
Samson Kwalingana*

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Foreword

While serving as IMF Mission Chief for Rwanda from August 2015–December 2019, the question was posed to me by international stakeholders numerous times—what is Rwanda doing differently than its peers to motivate such strong macroeconomic performance? Answering that question in an insightful way is the motivation for this paper. It was challenging to add value to the extensive but disparate existing literature, while maintaining a manageable scope. We started with a few separate essays on “macro-relevant” topics but weaving them together meaningfully required going beyond the confines of the IMF’s normal mandate. So, we veered outside the lines. We hope this paper, aimed to be accessible to a wide readership, contains some useful insights for those seeking to understand and learn from Rwanda’s experience, and plenty of references to deeper insights by others. The paper is being finalized during the COVID-19 pandemic which, unfortunately, makes the policy lessons herewith even more relevant.

—Laure Redifer

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And thanks, most of all, to our Rwandan colleagues, for their inspiring and persistent hard work and dedication.

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Executive Summary

Twenty-six years ago, Rwanda experienced one of the most devastating conflicts in history, known as the “Genocide Against the Tutsi.” The 1994 conflict, only 100 days itself, had roots in decades of escalating ethnic tension and violence. Following the conflict, the country and its infrastructure, civil service, and societal structures were all devastated. It required starting over and overcoming the most deep-set of vested interests, ethnic hatred that had erupted into genocide.

Helped by ample donor aid, the legitimacy of military success, and rapid reintegration of the Hutu into public/military life, the post-conflict government took a unique approach to reconstruction, rebuilding societal fabric along with modern policies and institutions that reached back to embrace precolonial values. In 2000, when the basic government functioning had been restored, the government launched a 20-year growth strategy aimed to lift the country into middle-income status. By 2020, Rwanda’s per capita income had not moved beyond “low,” nonetheless, its post-conflict recovery was unprecedented, with growth surpassing even estimates of what it would have been without the conflict. This paper explores some of the key factors behind that success, including unique institution-building that emphasized governance and ownership; aid-fueled and government-led strategic investment in people, infrastructure, and high-yield economic activity; re-establishment and expansion of a domestic tax base; policies to reduce aid dependency by attracting private investment and bolstering exports; and a purposeful strategy to harness the economic power of gender inclusion.

Going forward, Rwanda has articulated a comprehensive new strategy, calibrated to achieve the Sustainable Development Goals by 2030 and move to middle-high income status by the year 2050. However, financing full implementation of the strategy will be extremely challenging. With donor aid waning and domestic resources still limited, the continuation of Rwanda’s development remarkable journey hinges critically on, among other things, accelerating the inflow of significant external private financing and investment.

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Introduction

Rwanda's success story has become well-known in recent years, but the breadth, pace, and—most importantly—the “how,” are less well known, despite an extensive literature. The Genocide Against the Tutsi (hereafter “conflict”) in 1994 left the country, its people, its institutions, and its infrastructure devastated. Since then, in contrast to most sub-Saharan conflict-affected countries, Rwanda has successfully exited fragility, with growth rates comparable to the East Asian experience, emerging in 2020 as a “frontier economy,” with access to global markets and private finance.

This paper explores selected aspects of Rwanda's post-conflict policies, with the aim of providing best practices for others seeking to exit fragility. The paper looks at economic/governance factors traditionally associated with fragility in a post-conflict environment, and how they were addressed by Rwanda's Vision 2020 strategy. Vision 2020, laid out in the year 2000, aimed to move the country out of low-income status over two decades, intended to achieve economic and social development for overcoming past ethnic divisions and durably escaping the “conflict trap.” As of 2020, Rwanda remains a low-income country, but its progress toward its goal, which was arguably impossible to begin with, was nonetheless nothing short of miraculous.

Going forward, Rwanda is aiming higher still. The government-led and aid-fueled economic structure that has propelled the country to this point will be unable to continue, much less accelerate, Rwanda's economic momentum. The Rwandan government and World Bank prepared a comprehensive analysis to clarify and operationalize the specific challenges, notably “crowding-in” the private sector to serve as the main engine for growth, while also addressing constraints such as low-skilled labor, high transport and energy costs, still-inadequate infrastructure, continued vulnerability to weather and commodity prices, and the untapped potential of regional markets. But addressing these challenges will be costly and the world has evolved

since the Asian tiger economies used manufacturing and global exports to leap forward. Rwanda will need to continue rewriting the rules to gain significant capital and know-how to compete in today's highly integrated and digitalized global economy.

There are a number of things this paper does not do. It does not contain an in-depth analysis of the political aspects of Rwanda's recovery, while recognizing the unquestionably profound influence of President Paul Kagame over the past two and a half decades, and the initial importance of his Rwandan Patriotic Front (RPF).¹ It does not revisit the overall macroeconomic evolution of Rwanda, already covered in successive (and published) IMF staff reports. It also does not question the definition of fragility by the Bretton Woods institutions, which indicates that Rwanda exited "fragile state" status many years ago.² Finally, the paper only implicitly handles what are perhaps the two most important ingredients of Rwanda's success: unwavering commitment to development by its leadership, and exceptional hard work by its civil service.

The paper covers factors in overcoming fragility that have contributed to Rwanda's sustained high and stable growth and otherwise strong macroeconomic performance. It mainly uses a framework articulated by Gelbard and Jacoby (2015), which includes *stability* (political inclusion, capacity and institutions, macroeconomic stability); *resources* (domestic revenues, official development aid or ODA); *spending* (priority spending, public investment); *international support* (IMF programs, donor coordination); and *private investment* (external and domestic). These categories also align with many of the goals of Rwanda's own Vision 2020 strategy.

Specifically, Chapter 1 is a cross-cutting overview, explaining the country's post-conflict growth performance relative to a synthetic counterfactual and Rwanda's strategic use of international support. Chapter 2 describes how policies and institutions were rebuilt in the post-conflict period, with an emphasis on goal-setting, accountability/governance, and ownership, while drawing on traditional societal values and international best practices. Chapter 3 explains the government-led public investment push, financed by aid, and how it targeted building human capital, infrastructure and activity in certain sectors targeted to maximize growth and achieve development goals. Chapter 4 outlines policies to restart tax collection and increase domestic resource mobilization to provide more resources for priority public spend-

¹Numerous works cover this issue with depth and insight, including Kinzer (2008), Booth and Golobba-Mutebi (2012), and Mann and Berry (2015).

²The World Bank and IMF do not classify Rwanda as a fragile state and have not for many years. By contrast, the OECD 2018 Fragility Report includes Rwanda as a fragile state, based on societal, political, economic, and environmental (although not security or corruption) dimensions.

ing; Chapter 5 explains how, simultaneously, reforms were made to attract private investment and boost exports to help reduce aid dependency further. Chapter 6 explains how the country drew on untapped economic potential by actively promoting gender equality. Chapter 7 concludes with forward-looking challenges.

The most important takeaways from the paper are:

- Rwanda's exit from severe post-conflict fragility significantly outpaced that of other conflict-affected countries, with strong and stable growth over an extended period, despite numerous shocks.
- Rwanda's strategic use of international support was decisive in its success, more so than the amount it received. Aid initially comprised a large share of the budget, but the government increasingly took the reins in deciding *how* aid would be used and in establishing structures for coherent coordination and accountability. Even when controversial, the government has been willing to say "no" to support/advice it has deemed unhelpful.
- Rwanda's post-conflict policies and institutions were made more robust by imbedding clear accountability tools, obtaining broad ownership of policies within the population, and maintaining clear goals. For the latter, goals were translated into pragmatic policy reforms. Rebuilding of institutions and society incorporated precolonial traditions and values, but also incorporated best practices and know-how from other countries.
- Public investment was carefully directed to restructure the economy toward new activities with higher returns to productivity and growth. To this end, investment spending focused on three main areas: improving labor skills via health and education; creating growth-enhancing public infrastructure; and introducing greenfield enterprise in sectors of strong potential, taking into account the country's land-locked geography, still-low labor productivity, and high input costs.
- A robust domestic tax base was established through creation of a single revenue authority, with an ongoing ambitious agenda of tax policy and administrative reforms, designed to transform gradually a culture of low tax compliance.
- Special institutions and policies were created to attract foreign direct investment to targeted export sectors, with an eye to reducing aid dependency, accelerating growth, and improving resilience to outside shocks. Bucking the traditional manufacturing path, given Rwanda's cost and productivity constraints, investment was channeled toward services exports, notably tourism, with a more recent evolution to light manufacturing and agro-processing.

- Deliberate policies to promote gender equality—for example, gender budgeting, schemes to improve education and financial access, and inclusion of women in public decision-making—bolstered growth through harnessing untapped potential while also accelerating poverty reduction.
- Going forward, maintaining Rwanda’s growth momentum will require accelerated progress to move to a private sector-led growth model that relies increasingly less on international aid. Continued innovative policies to attract external private investment and leverage technology to “leapfrog” development hurdles will be critical for Rwanda to continue on its ambitious path of development.

CHAPTER

1

Overview of Rwanda's Growth Performance and Its Use of International Support

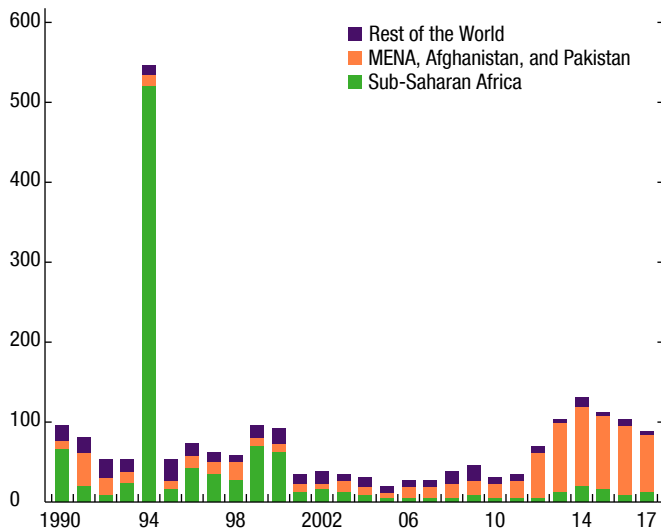
The Genocide against the Tutsi in 1994 was a devastating event for Rwanda, well beyond comparison on a global scale. 25 years on, the country has not only exited fragility, already an exceptional achievement, but also managed to regain lost ground in terms of output.

Post-Conflict Overview

The 1994 Genocide against the Tutsi (hereafter “conflict”) was preceded by decades of ethnic tension, which precipitated a large outflow of refugees over the 1960–80s. The well-planned genocidal conflict that erupted in 1994 lasted a mere 100 days before the Rwandan Patriotic Front (RPF)—led by Paul Kagame—stopped it, but the conflict made a lasting impact, not only on Rwanda, but also on the world which had—simplistically put—declined to intervene. The human cost was staggering, with some 1 million lives lost (roughly 15 percent of the population), countless children orphaned, and 3 million refugees fled to neighboring countries. The economic cost was also huge. Already stagnating since the mid-1980s, Rwanda's GDP contracted by 50 percent in 1994, to \$146 per capita, the same level as in 1975. Inflation soared, and the poverty rate reached 78 percent. A complete restart was required. To fathom better the enormity of the loss, a global comparison against other conflicts since the 1990s is illustrative (Figure 1).

The country's turnaround since 1994 has been noteworthy. GDP per capita has more than tripled, to approximately \$800 per person in 2018 (Figure 2). Life expectancy, at 67 years in 2018, far outpaces the average for countries at a similar GDP level (Figure 3). Child mortality has been reduced to one-quarter of the level in 2000, while maternal mortality was reduced to one-fifth of its 2000 level. Poverty has been reduced to 38 percent (Figure 4).

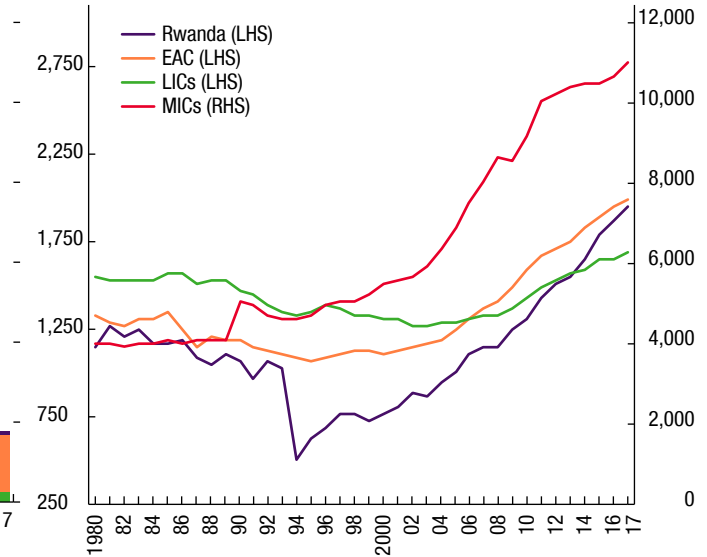
Figure 1. Total Conflict-Related Deaths
(Thousands)



Sources: Uppsala Georeferenced Event Dataset; and IMF staff calculations from April 2018 SSA Regional Economic Outlook.

Note: Based on verified fatalities. To the extent that news reports and historical sources miss conflict events, estimates may be a lower bound. MENA = Middle East and North Africa.

Figure 2. Real GDP per Capita
(At chained PPPs, 2011 US dollars)



Source: Penn World Tables 9.

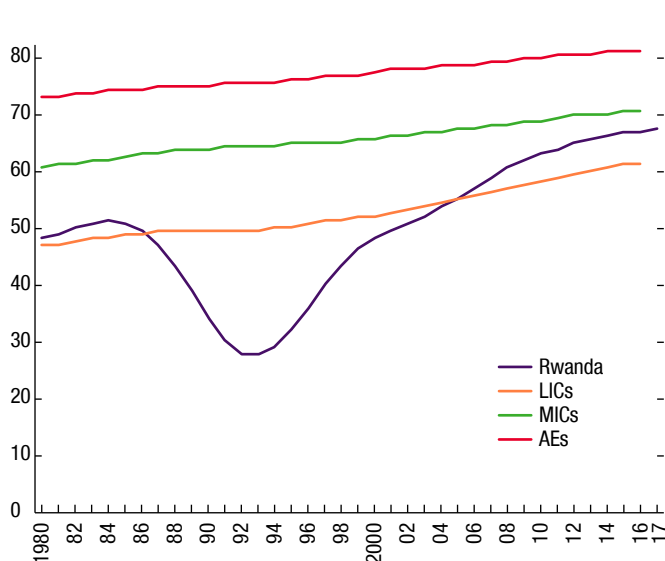
Growth Compared to a Non-Conflict Counterfactual

In the aftermath of conflict, most countries gain back only part of their lost economic output. Several studies based on different country experiences report partial output rebounds and permanent output losses from civil war episodes. Recovery is only partial since the losses to physical and human capital sustained during the conflict can only be repaired over time and tend to constrain growth.¹

To assess Rwanda's post-conflict performance, we employ the "synthetic control approach" to look at cumulative output losses since the onset of the conflict. The approach looks at the growth counterfactual for conflict-affected countries by creating a synthetic control group, using a weighted-average of countries with similar characteristics as the conflict country before the onset

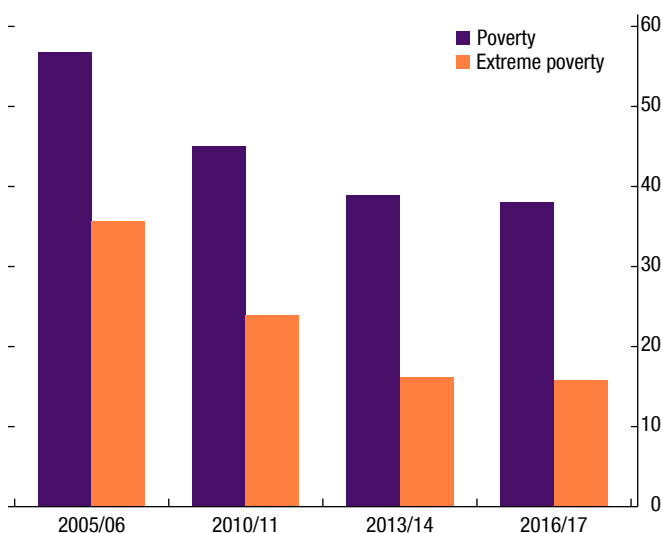
¹There is a rich and vast literature on state building, conflict, poverty, fragility, and growth that is relevant for understanding Rwanda's success story in a broader context, including Acemoglu, Johnson, and Robinson (2005), Acemoglu and Robinson (2012), Collier and others (2003), and on sub-Saharan Africa including Bertocchi and Guerzoni (2012), and Collier and Gunning (1999). A forthcoming book by Chami, Espinoza, and Montiel (2020) develops relevant idea of interlocking vicious cycles of poverty and fragility.

Figure 3. Life Expectancy
(Years)



Source: World Development Indicators.

Figure 4. Rwanda Household Survey: Poverty Rates
(Percent of population)



Source: Rwandan authorities.

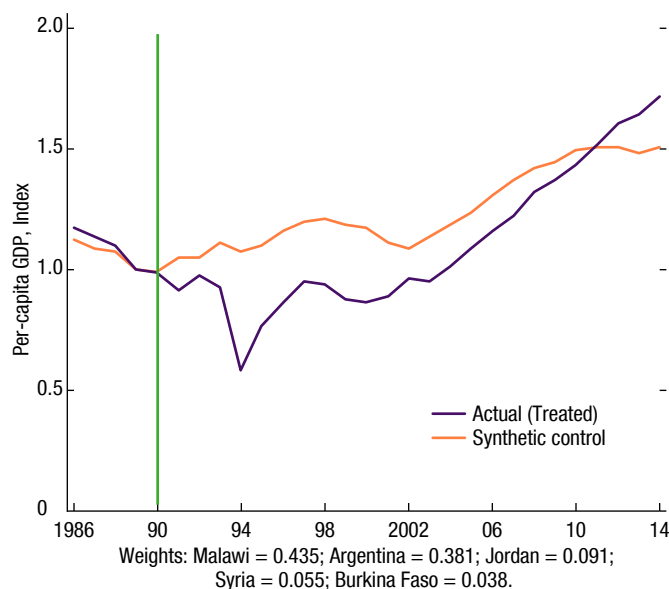
of violence.² We draw the approach from IMF (2019), which reports that five years after the onset of the conflict, on average the synthetic group's per capita GDP has increased by 12 percent, while the actual per capita GDP of the conflict countries has decreased by 10 percent. In other words, in per capita GDP terms, the opportunity cost of the conflict is greater than 20 percent. Employing a similar approach, Cerra and Saxena (2008) find that even after a decade, on average, three percentage points of cumulative output loss remain compared to a constructed counterfactual.

In contrast to other post-conflict countries, Rwanda was able to regain output losses attributable to the conflict, and even surpass comparator countries' performance. Compared to other sub-Saharan African countries that experienced conflicts in the 1990s, Rwanda had a more severe conflict, but was—except for Ethiopia—the only SSA country where GDP per capita has fully recovered (Figure 5). The persistence of Rwanda's recovery has been unusual in various respects. Comparing actual and synthetic-control-method-based real per capita GDP growth, several conclusions emerge.³

²The idea is to recreate a synthetic country from the weighted average of other countries which did not suffer from major conflict. The weights applied to other countries reflect how closely various attributes match the country prior to the outbreak of civil war. More information on the synthetic control method and its application here is contained in Annex I.

³To account for the ongoing conflict in the leadup to the genocide against the Tutsi in April 1994, the synthetic control mechanism assumes a pre-conflict year of 1990. The weights of those included in the

Figure 5. Rwanda: Per Capita GDP, 1990



Source: IMF WEO and staff estimates.

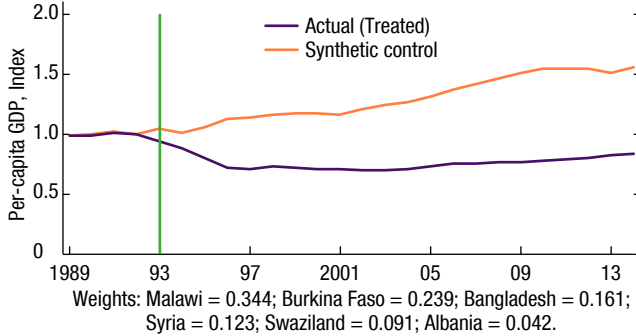
- Four years after the onset of the conflict (1994, which was the actual genocide), Rwanda's per-capita GDP was 42 percent below the pre-conflict (1989) level while the synthetic group's per capita GDP level was 7.5 percent higher.
- Rwanda's per capita GDP caught up with its 1989 level in 2004, 14 years after the onset of the conflict, at which time the synthetic group's per capita GDP had increased 18 percent above the 1989 level.
- Rwanda's per capita GDP caught up with the synthetic group's per capita GDP in 2011, at a level 51 percent higher than in 1989, and its growth performance since has surpassed that of the comparator group.

Other SSA conflict-affected countries—except Ethiopia—have made less progress in recovering per capita GDP losses. We used the synthetic control approach with other SSA countries that experienced conflict in the 1990s–early 2000s, including Burundi, Democratic Republic of the Congo, Ethiopia, Guinea-Bissau, Liberia, Republic of Congo, and Sierra Leone (Figure 6). It shows that only Rwanda and Ethiopia—the latter with a far less severe initial impact than the others—were able to make significant progress in catching up to the comparator group. In fact, Rwanda's actual

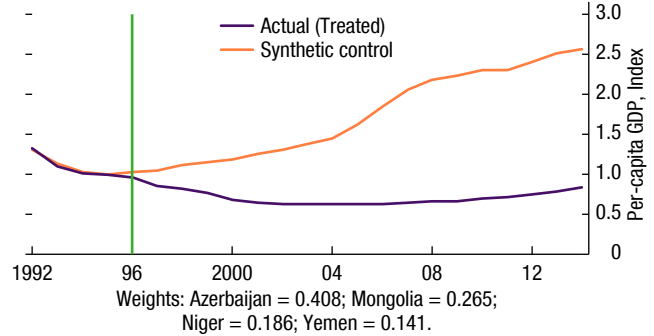
synthetic group are Malawi = 0.435; Argentina = 0.381; Jordan = 0.091; Syria = 0.055; and Burkina Faso = 0.038.

Figure 6. Synthetic Estimates in Regional Peers

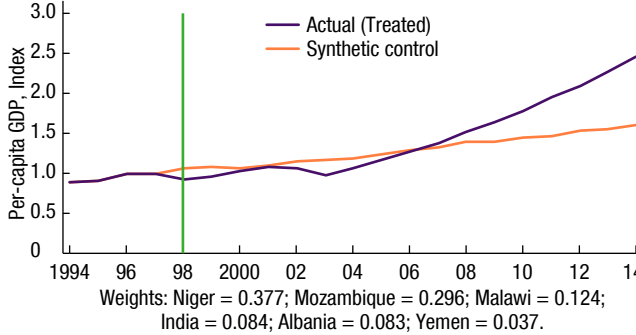
1. Burundi: Per-capita GDP



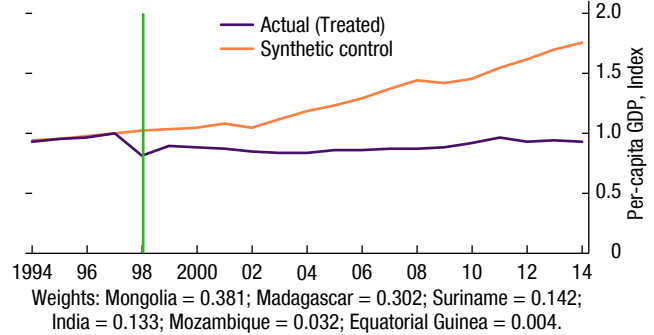
2. Democratic Republic of Congo: Per-capita GDP



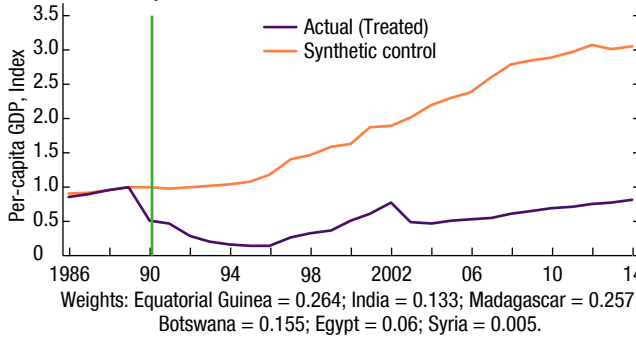
3. Ethiopia: Per-capita GDP



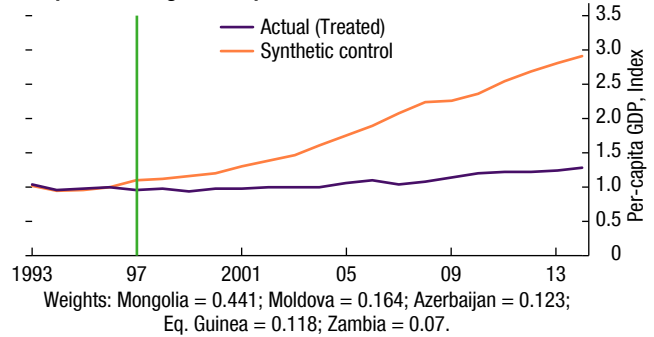
4. Guinea-Bissau: Per-capita GDP



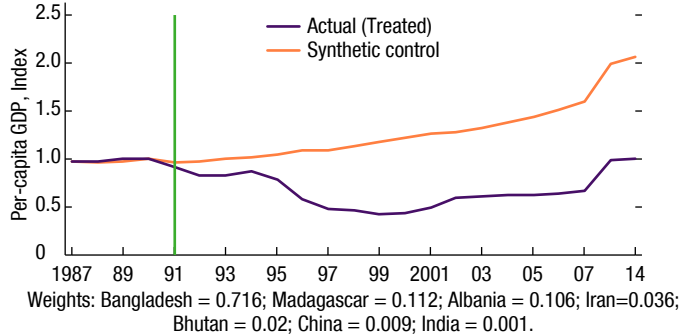
5. Liberia: Per-capita GDP



6. Republic of Congo: Per-capita GDP

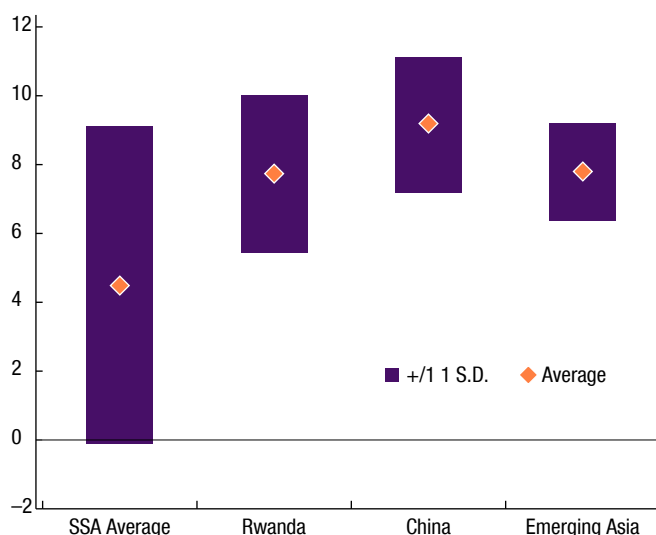


7. Sierra Leone: Per-capita GDP



Source: IMF WEO and staff estimates.

Figure 7. Growth Performance since 2000
(Percent, y/y)



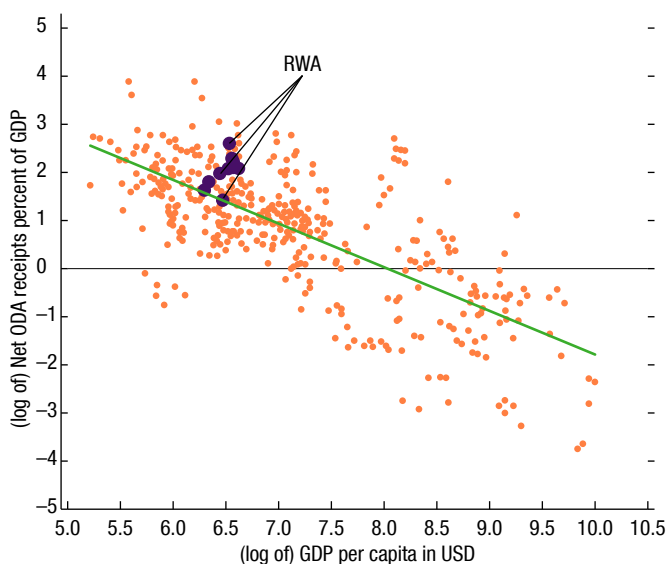
Source: IMF WEO database and staff calculations.

growth experience, in terms of pace and below-average variance despite several shocks, has been more comparable to that of emerging Asia (Figure 7).

Macro-Relevant Factors Affecting Overcoming Post-Conflict Fragility

The aforementioned academic literature on conflict and fragility encompasses a range of factors as to why some countries are better than others at overcoming fragility. From an economic perspective, factors in influencing stability are summarized well by Gelbard and Jacoby (2015) and are roughly what is covered in the chapters of this paper: *stability* (political inclusion, capacity and institutions, macroeconomic stability); *resources* (domestic revenues, official development aid or ODA); *spending* (priority spending, public investment); *international support* (IMF programs, donor coordination); and *private investment* (external and domestic). This paper aims to cover most of these elements, albeit only with a broad overview on macroeconomic stability already covered in IMF reports. We will start with the topic of international support (including ODA and an overview of Rwanda's engagement with the IMF).

Figure 8. SSA: Net ODA Percent of GDP vs GDP per Capita, 2008–17



Source: OECD Statistics, IMF WEO and staff calculations.

Rwanda's Use of International Support

Conventional wisdom often seems to view Rwanda's successes as mostly attributable to large aid transfers and intensive donor involvement. For the early post-conflict period, as with other countries, this assumption was correct: international aid financed most of the national budget. In the past two decades, Rwanda has benefited from above-average net ODA flows, but it has not been an outlier (Figure 8) as of 2019 ODA financed less than one-third of the budget. A more fundamental difference, in Rwanda relative to other fragile and conflict-affected countries, was the extent to which self-determination increasingly played a role in how aid was used, and what advice of development partners was taken. The Rwandan government took to heart aid effectiveness principles of ownership and mutual accountability, taking this to its conclusion of implementing its own decisions, even when these were controversial or unpopular with its development partners. For their part, development partners have largely, albeit often reluctantly, accepted this because Rwanda's track record, while not perfect, can be seen as one of the best—if not the best—examples where international aid has been effective.

Already, in 2005, the Paris Declaration on Aid Effectiveness recommended five broad changes to improve the effectiveness of aid in developing countries: ownership, or giving countries more say over their own development

agenda; alignment of donor support behind those home-grown agendas; harmonization of donors' interventions to simplify procedures and avoid duplication; shifting the focus to results; and setting up mutual accountability mechanisms.

More recent literature has underscored and expounded upon the same message. For example, the World Bank *2011 World Development Report* noted that international assistance in post-conflict situation had often resulted in overlaps and discontinuities across humanitarian, development, security, and political objectives. In general, technical assistance focused on transplanting best practice from elsewhere without reference to the local context, which was often poorly understood. Also, international aid and advice was provided on the donor's timetable, usually with a 3–5 years horizon, while meaningful change generally takes about 15 years. Finally, international support was influenced by an incentive set skewed by accountability to the population of the donor country or shareholders of the institution itself, instead of accountability to the countries being served. The 2018 Commission on State Fragility, Growth and Development, chaired by David Cameron, came to similar conclusions, noting:

For decades, donors have recognized the need for greater donor coordination without being able to achieve it, the reasons being self-evident: not donor government is genuinely willing to be coordinated by some other donor government. The only means of achieving effective donor coordination is if the government of the country sets the agenda for all of them. Mistakes will be made, but as long as the responsibility for them is clearly domestic, governments and society will learn from them. All international actors must decisively abandon the entrenched practice of policy conditionality, by which they make finance dependent upon government acceptance of specific policies. Their role is to assist and empower, not to impose their own preferences. (18–19)

Even in the early period following the conflict, as covered briefly in the next chapter, the Rwandan government took a decisive role in rebuilding institutions and policies. Whether this was because of the legitimacy/control of the post-conflict RPF government, the urgency of restoring social stability after an ethnic genocide, the rapid influx of a well-educated refugee diaspora, and/or other reasons is beyond the scope of this paper to evaluate. Certainly, development partners (or also “donors” for the sake of brevity) were heavily engaged in helping rebuild the country following the conflict, and they provided meaningful input into crafting the Vision 2020 and its implementing strategies.

But in 2006, following the Paris Declaration, the Rwandan government adopted a new aid policy, which emphasized aligning donor operations more

closely to the specifics of Rwanda's development strategy. At the same time, a supporting architecture was created to set goals, facilitate coordination, assess results, and ensure mutual accountability (Box 1).

In 2010, the coordination framework was further strengthened by a new "Division of Labor" policy. In this exercise, the government sought to consolidate DPs sectoral engagement, both to reduce transactions costs and address duplication in some priority sectors and gaps in others. Development partners were asked/required to reduce their engagement to no more than three sectors, with the selection jointly determined by the country's needs and donors' areas of expertise. The policy led to a significant streamlining for both multilateral and bilateral partners, for example, the World Bank Group was involved in 10 sectors prior to the reform and only 3 sectors afterward. According to the government, streamlining not only achieved its original objectives of improving efficiency, but they found donors were more committed and supported larger projects when engaged in fewer activities. Donors also agree that Rwanda's coordination framework has led to better, albeit not perfect, results.⁴ The government also took a more directive approach in requesting—and accepting—technical expertise. The government has taken the initiative to request joint analytical work in areas of keen interest, for example, as will be discussed in subsequent chapters, a 2008 governance assessment and a 2018 drivers of growth study, both with the World Bank.

However, putting these principles into practice and creating a partnership based on recipient-led international support infrastructure has not been an easy process in practice. While donors have had strong influence over strategy, policies, and projects, the government has proceeded in several cases with controversial spending and/or borrowing decisions where donors objected, even strenuously. These include the upgrade of the Serena Hotel to five-star status; construction of the Kigali Convention Centre; investment in new planes and routes for RwandAir; tourism marketing on football jerseys; and planned construction of a large new airport at Bugesera. Despite these differences of view, by and large, results have continued to accumulate and Rwanda's ODA shares relative to other countries do not appear, on average, to have been affected over time (Figures 9 and 10). In other words, when the local view diverged strongly from that of the development partners, Rwanda resisted that development partners—in the words of the 2018 Commission—"impose their own preferences."⁵

⁴Internal discussions with development partners, including IMF staff.

⁵Donors did temporarily withdraw ODA in 2012 in response to concerns of mineral smuggling from the Democratic Republic of the Congo. The Rwandan government instituted a tagging system for mineral exports, and donors reengaged.

Box 1. Rwanda's Donor Coordination Framework

Development Partners Retreat: annual two-day retreat outside Kigali hosted by Minister of Economic Planning and Finance (MINECOFIN) to monitor program and discuss strategic planning.

Development Partners Coordination Group (DPCG): quarterly meeting to coordinate overall ODA delivery chaired jointly by MINECOFIN and a rotating development partner.

Sector Working Groups: quarterly meetings of DPs and line ministries for each sector, the reporting feeds into the DPCG.

Joint Sector Reviews: twice per year forward- and backward-looking analysis of the performance of sector plans. The outcomes are signed off by the DPCG heads.

Country Portfolio Performance Review: annual assessment of performance of all sectors combined.

Development Partners' assessment: independent annual assessment at sector and combined level by DPs.

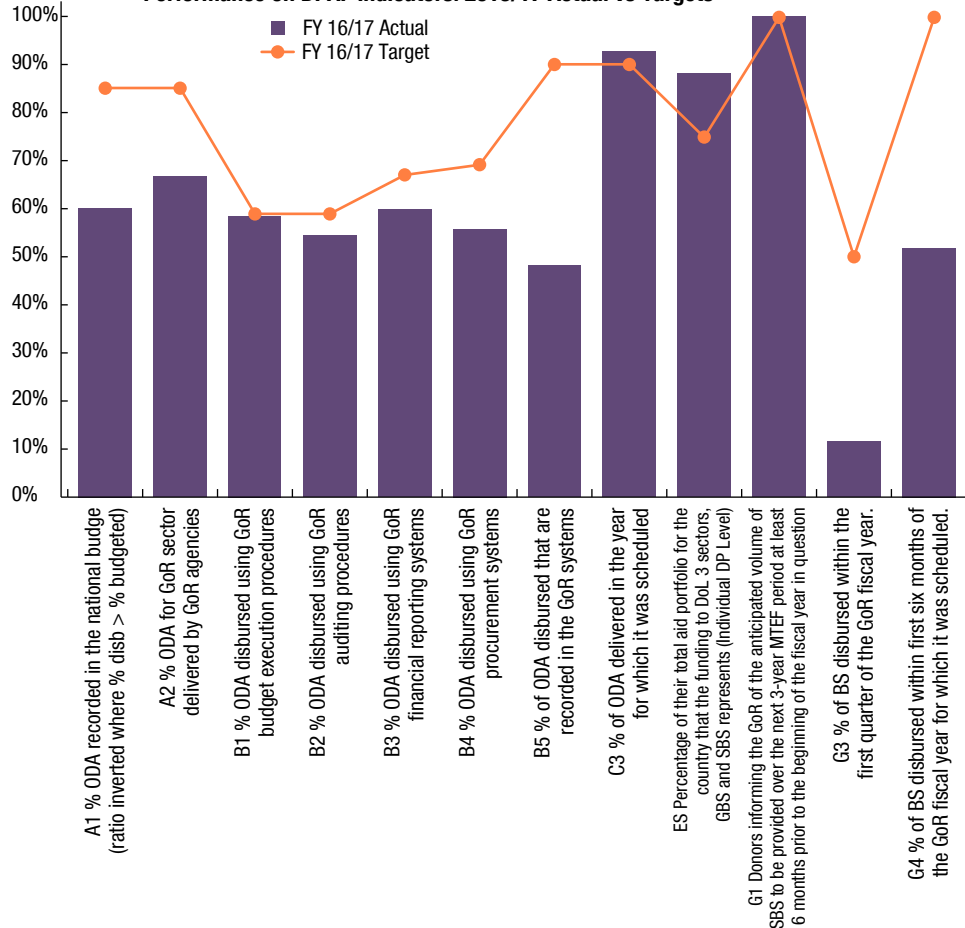
Development Assistance Database: ongoing centralized database that tracks ODA planning, disbursements, and project implementation.

Box 1. Rwanda's Donor Coordination Framework (continued)



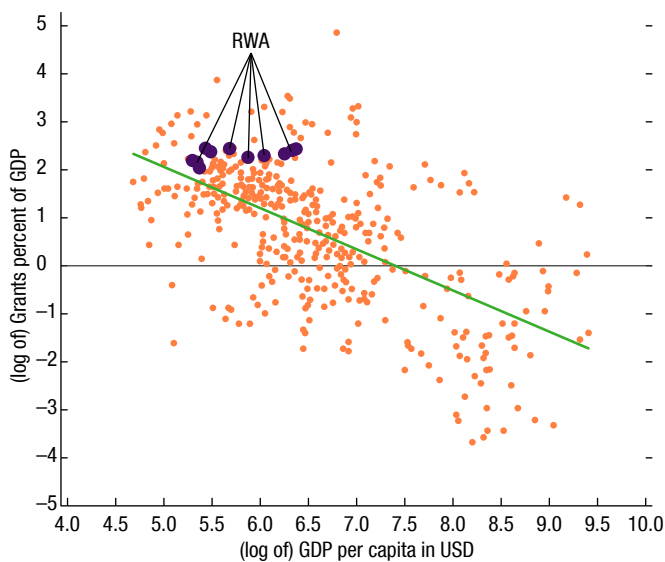
**Figure 1.1. Mutual Accountability:
DPAF: Assessing Compliance with Commitments**

Performance on DPAF Indicators: 2016/17 Actual vs Targets



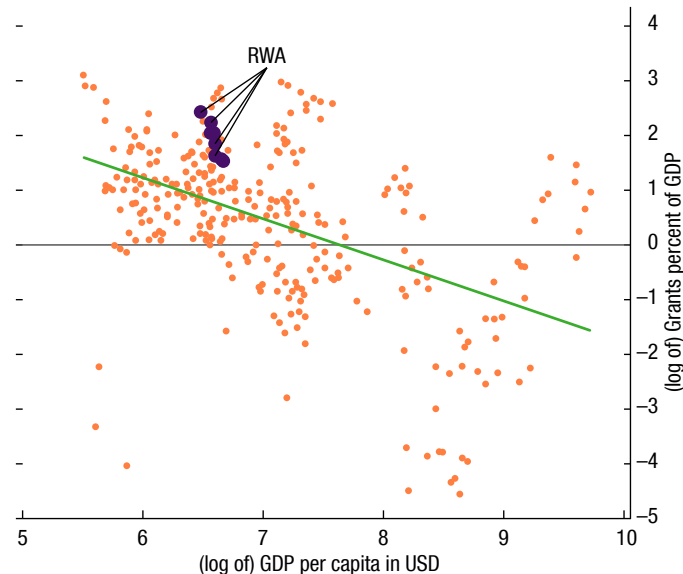
Source: Government of Rwanda.

Figure 9. SSA: Grants Percent of GDP vs GDP per Capita, 2000–10



Source: OECD Statistics, IMF WEO and staff calculations.

Figure 10. SSA: Grants Percent of GDP vs GDP per Capita, 2011–18



Source: OECD Statistics, IMF WEO and staff calculations.

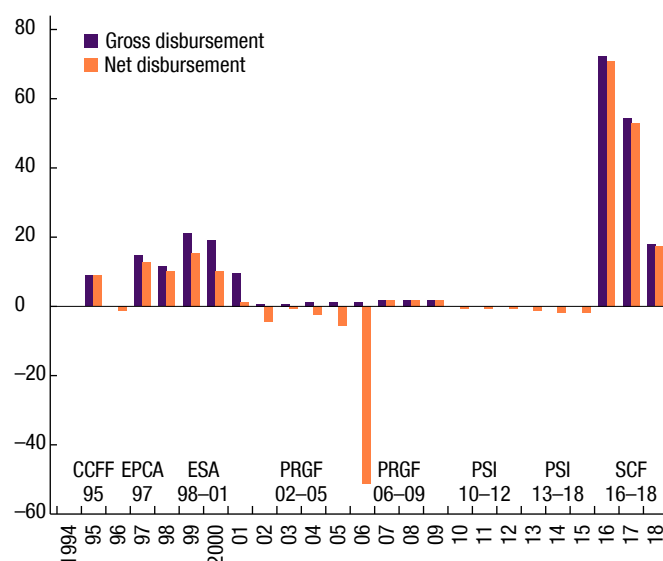
IMF Engagement in Rwanda

Rwanda’s “ownership” of its agenda can also be seen in its relationship with the IMF. In the post-conflict period, Rwanda has placed a high priority on maintaining macroeconomic stability, including in the face of various external shocks. The country has sought almost continuous intensive program engagement with the IMF since 1995, despite very rare access to IMF financing (Figure 11).⁶

The close policy dialogue with the IMF has helped craft nimble policy responses to external shocks. Notable examples include a withdrawal of donor support in 2012, which accelerated efforts and technical advice to increase domestic revenues, as well as increase and diversify exports to reduce reliance on hard currency aid inflows. Another example was external imbalances which had grown over a period of years but became acute in 2015–16 (Figure 12), putting pressure on the value of the Rwandan franc and international reserves. This was brought about by a combination of lower export proceeds from the combined hit of higher mineral production costs due to tagging plus a commodity price decline, then further exacerbated by drought

⁶IMF signaling, required by donors providing budget support, was also a reason, but arguably could have been achieved through less-intensive forms of engagement. Additional IMF financing has been recently provided in early 2020 in response to the COVID-19 pandemic.

Figure 11. Rwanda: IMF Disbursements
(SDR millions)



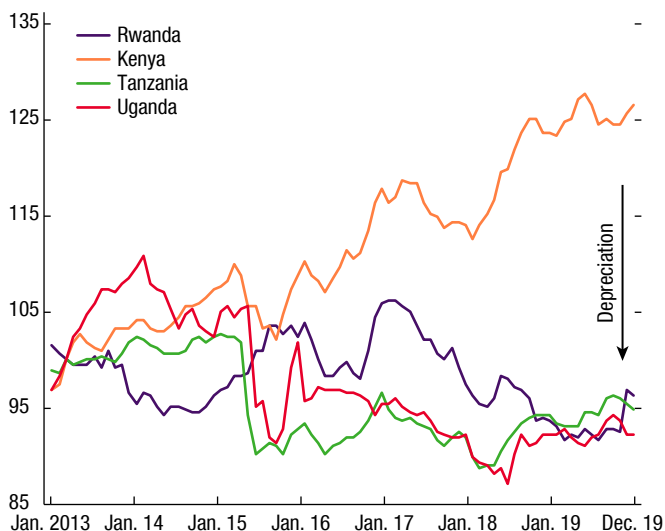
Source: IMF Finance Department database.

in the region (Figure 13). The Rwandan government (including central bank) agreed with IMF-recommended domestic adjustment policies to contain demand for imports—primarily through allowing greater exchange rate adjustment—supported by containment of public spending and a tighter monetary stance. The budget and central bank policies were adjusted accordingly, going beyond what had been agreed in the formal program. The government also added home-grown policies to promote domestic production of previously-imported products and more diversified exports. The policies served to reverse imbalances quickly and set external balances on a more sustainable path.

Rwanda's engagement with the IMF has been increasingly handled as a partnership, with less-binding and directive policy prescriptions, but this has required pushing the envelope of the traditional modes of operation, both within the IMF and vis-à-vis other development partners. For example, for the three-year “signaling” (non-financing) program agreed between Rwanda and the IMF in 2019, there was technical agreement that medium-term financing and spending goals should be modestly loosened, while maintaining public debt at manageable levels, to support implementation of Rwanda's new development strategy.⁷ While the program was eventually approved, this

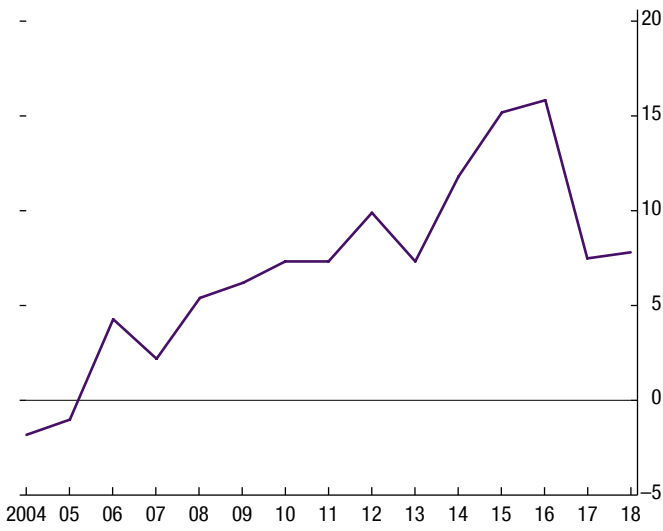
⁷See <https://www.imf.org/en/Publications/CR/Issues/2019/07/03/Rwanda-Staff-Report-for-2019-Article-IV-Consultation-and-a-Request-for-a-Three-Year-Policy-47089>.

Figure 12. EAC Real Effective Exchange Rates
(Indexed, March 2013 = 100)



Source: IMF WEO database and staff calculations.

Figure 13. Current Account Deficit
(Percent of GDP)



Source: IMF WEO database and staff calculations.

country-specific approach set off alarm bells, since it contrasted sharply with more general and growing concerns within the Bretton Woods institutions about rising debt risks across the continent.

Conclusion

The strength of Rwanda's growth following the conflict significantly outpaces the norm, and the sustained and stable nature of growth performance is comparable to that of emerging Asian countries. From a macroeconomic perspective, international support is one of several important factors determining how countries are able to move away from post-conflict fragility. In Rwanda's case, the government and development partners espoused the Paris Declaration principles for making international support more effective by aligning it with home-grown strategies, and introducing structures for coordination, accountability, and results monitoring. In practice, home-grown solutions have in a number of instances clashed sharply with the advice/agendas of development partners, but the arrangement—and particularly its outcomes—is viewed by both sides as a good model for engagement.

Purposeful Policy and Institution Building

Government and policymaking infrastructure had to be recreated following the conflict. New institutions drew on precolonial traditions, emphasizing (1) strict accountability; (2) broad ownership; and (3) goal-setting, adaptation, and innovation. Notable in particular are Rwanda's rigorous and unique systems for accountability and governance. Policies and systems were enhanced by emulating best practices elsewhere and careful monitoring of results to make pragmatic adaptations over time. Rwanda's resulting strong policy institutions, combined with a firmly country-driven development agenda, have enabled consistent implementation of reform policies over two and a half decades.

Background

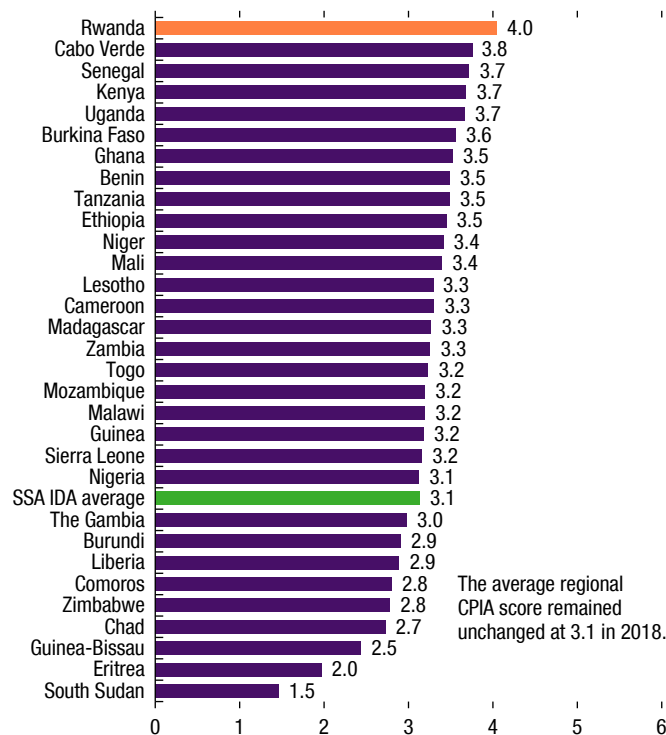
Since 2014, Rwanda has ranked first in sub-Saharan Africa in the World Bank's Country Policy and Institutional Assessment (CPIA).¹ Academic literature has listed the quality of institutions as important differentiating factor in cross-country economic growth and social fragility, and avoiding a "conflict trap."² Rwanda's achievement in rebuilding institutions is all the more notable considering that by 1994 government capacity had collapsed, with all delivery of public services interrupted, and half of public servants killed or having fled. Indeed, the elimination of the existing bureaucracy had the unintended effect of a complete restart that disrupted vested interests.³ However, the situation was far from a "clean slate." Re-creating institutions after such a traumatic and divisive conflict was a deliberate, careful, and gradual process. This chapter looks at some broad ingredients of that success.

¹2019 World Bank Country Policy and Institutional Assessment (CPIA).

²For example, IMF (2019), Acemoglu and Robinson (2012), Acemoglu, Johnson, and Robinson (2005), Bertocchi and Guerzoni (2012), Easterly 2005, Collier and others (2003).

³Jones and Murray (2018).

Figure 14. SSA: Overall CPIA Scores (IDA), 2018
(Index, 1 = lowest to 6 = highest)



Source: World Bank CPIA database.

In the initial period after the conflict, the Rwandan Patriotic Front (RPF) effectively served as the government. The RPF, the military force/political party led by Paul Kagame that put a stop to the conflict, became the effective government after the conflict, and was able to rely on, among other things, Rwanda's long historical and precolonial tradition of a strong central government. The credibility of the government initially was based on the credibility of the RPF's military success, the military leadership of Kagame, and early efforts to re-integrate the Rwandan military. The RPF then began organizing citizens at the local level, with local representatives elected to executive committees that served as an interim government. These committees helped restore basic public services and served as two-way conduits for information and collecting and distributing resources.⁴

Thereafter the uphill battle began to restore social stability, rebuild institutions, and stabilize the economy. Initial efforts focused on rebuilding the

⁴The International Growth Centre's 2018 report, "Consolidating Peace and Legitimacy in Rwanda" (Jones and Murray 2018) provides an insightful summary of institution-building following the genocide.

legitimacy of public institutions and trust among the population. This was accomplished, among other efforts, by reintegrating former combatants into the local police, the army, and the government. The public service was rebuilt, hiring according to strict new standards focused only on merit. The public wage scale was flattened, and all non-wage benefits were monetized. The government set a zero-tolerance policy for corruption, with serious consequences for infractions. At the same time, many public servants—even Ministers—worked without pay for extended periods. A rudimentary justice system for war criminals was created, including local “gacaca” courts for handling the lower-level genocidaires. These institutions often drew on precolonial principles and traditions. The tax system was decimated, and the RPF used its own financial resources to support government spending.⁵ Starting in 1995–96, development partners recommenced operations, providing financing, policy advice, and technical assistance to help rebuild capacity.⁶

Rwanda’s reconstruction benefited from large-scale repatriation of a well-educated refugee diaspora. Ethnic tensions in the country began already in 1959, after which many families fled to neighboring countries. By 1994, an entire generation of Rwandans had been born and/or educated outside the country. Most families that had sought refuge outside the country came back to rebuild the country in the period between 1995–2000, with plenty of encouragement from the RPF. While not possible to quantify, the repatriation clearly provided a significant boost to human capacity and productivity in the decade following the conflict.⁷ Even 25 years later, the majority of high-level government officials and private entrepreneurs are individuals who were educated outside the country. This served to import “know-how” from outside the country, further augmented by donor-provided human capacity, notably from the United Kingdom. Moreover, blending different languages and cultures in schools provided an environment of greater diversity and tolerance, helping solidify a “Rwandan” identity, independent of ethnicity and culture. This was complemented by an intentional policy to target ethnic diversity in the civil service.

The government also relied heavily on know-how through long- and short-term technical advisors. From the early post-conflict period until 2020, the government has relied on numerous advisors with specialized expertise employed from outside the country to work in—or even temporarily run—government ministries and agencies. These advisors are placed within the organizational structures of to facilitate the transfer of knowledge. Some advisors remain for short periods of 1–2 years, while others

⁵Booth and Golooba-Mutebi (2012).

⁶It is beyond the scope of this paper to discuss the involvement of the international community prior to the conflict.

⁷Available statistics are inadequate for measuring changes in labor productivity.

have stayed longer.⁸ Rwanda is also an intensive user of short-term technical assistance. But, as noted in the previous chapter, the government is selective about its use of technical assistance, directing it to areas where it perceives a need and not accepting assistance that is duplicative or has low value added. This selective approach to TA results in more effective and efficient use, with relatively large share of recommendations adopted.

Rwanda's early economic recovery also benefited from the RPF's investments in companies, existing and new, to stimulate private economic activity, a phenomenon that Booth and Golooba-Mutebi (2012) call "developmental patrimonialism." In contrast to many other post-conflict situations, the profits of the RPF's business concerns were not pocketed by individual politicians or military leaders, rather were reinvested in the country and in the economy.⁹ This pervasive ethos of using power to serve the citizenry at large strengthened the legitimacy of the RPF government and consolidated its power, setting the stage for gaining broad buy-in for subsequent reforms.

Accountability and Governance

Unique to Rwanda is its strict and far-reaching framework for government accountability. Even at its beginnings, the post-conflict government emphasized low tolerance for corruption, which has evolved to a zero-tolerance policy for corruption, with public officials vulnerable to dismissal at even a hint of transgression.¹⁰ Good governance was enshrined as the first pillar of the Vision 2020.

Complementing its corruption policy is the country's distinctive system for individual accountability. Since 2006, every public servant has been required to sign an annual performance contract under *Imihigo* ("promise" or "pledge"), drawing from a precolonial practice of chiefs/warriors.¹¹ The performance contracts list annual work objectives for each individual, which collectively aim at controlling the pace and quality of program execution, and the contracts are published. Failure to fulfill contracts results in serious consequences, including dismissal. The process has been refined over time, for example, by adding team objectives so that individual *imihigo* objectives do not work at cross-purposes.

⁸In one notable case, a Ghanaian advisor has remained for 20 years.

⁹The RPF's business concerns, which are classified as private companies, tend to be a topic of much discussion, also given their strong market share in key sectors, such as construction. However, evidence—such as high tax bills, loss of market share to foreign competitors, and foreign exchange scarcity—suggests that they have been run as private concerns for several years.

¹⁰In 2019, Transparency International Corruption Perceptions Index ranked Rwanda 51 out of 180 countries in terms of the least corruption, and fourth among SSA countries.

¹¹Scher (2010).

In 2003, a supreme audit function was created by the creation of the Office of the Auditor General, which has the constitutional responsibility to report to parliament on the government's management of public finance and the quality of the government's financial reporting. Generally, audit functions in the developing country context suffer from lack of independence and/or a lack of capacity. While lack of capacity has been a past issue, Rwanda's OAG seems to have good operational independence, with no reports of interference from government, favorable reviews from Transparency International, and winning awards for the quality of its analysis.¹²

In light of the volume of decision-making and competing priorities imbedded in the Vision 2020 development strategy, annual leadership retreats (*Umwihero*, or constant quest for solutions through national consensus and dialogue) were also introduced in 2003 to bring together all levels of government, chaired by the president, at a multiday event (usually outside Kigali) to self-assess progress against goals and reassess priorities for the coming year. Timed to coincide with the results mid-year budget review, the Leadership Retreat is designed as an opportunity for mid-course correction, with changes reflected in annual budget planning for the following fiscal year. The retreat results in a dozen or so very specific "resolutions" in key sectors, stipulating priority reforms for the coming year. This mechanism not only facilitates accountability but also adaptability, if policies are not delivering as expected. The Leadership Retreat is also effectively as a "name and shame" exercise, where public officials are held accountable, in fairly brutal public manner, for falling short of commitments.

In 2008, the President requested that the World Bank conduct a joint governance assessment,¹³ as this was a key pillar of Vision 2020. The assessment provided a "generally positive view" of the progress made in strengthening governance, while recognizing the "enormity of the remaining challenges." Recommendations were given across a range of spheres, which created additional institutions and policies devoted to strong governance.

In 2011, an entity now known as the Rwandan Governance Board (RGB) was created. In addition to responsibility to administer *imihigo*, and other central-level governance programs, the RGB has a broader mandate to monitor the effectiveness of programs involving the community (discussed in the next section). It also handles government e-services, a registry of watchdog organizations, and laws and policies applicable to public servants.

The Governance Board also has the responsibility for administering "citizen-report cards," introduced in 2010, for assessing service delivery in

¹²Among others, Isaksson and Bigsten (2012).

¹³World Bank and Government of Rwanda (2008).

Figure 15. Rwanda: Overall Scores of Governance Scorecard 5th Edition

PILLAR	1	PILLAR	2	PILLAR	3	PILLAR	4	PILLAR	5	PILLAR	6	PILLAR	7	PILLAR	8
Rule of Law	83.68	Political Rights and Civil Liberties	83.83	Participation and Inclusiveness	76.79	Safety and Security	94.97	Investing in Human and Social Development	75.55	Control of Corruption, Transparency and Accountability	83.72	Quality of Service Delivery	74.25	Economic and Corporate Governance	78.04
↓		↓		↓		↓		↓		↓		↓		↓	
5 Indicators		7 Indicators		5 Indicators		4 Indicators		4 Indicators		3 Indicators		4 Indicators		5 Indicators	
Performance of the judiciary	73.94	Democratic rights and freedoms	84.30	Citizen participation	65.63	Maintaining security	95.24	Education	82.12	Incidence corruption	80.50	Service delivery in local administration	85.60	Macro-economic indicators	74.25
Performance of the legislature	85.31	Vibrancy of civil society organizations in policy formulation	67.33	Decentralization	75.63	National security	98.80	Health	82.87	Control of corruption	81.96	Service delivery in justice sector	74.30	National capital and export promotion	64.41
Performance of the prosecution	90.76	Rights to media freedom	85.85	Civil society participation	72.45	Personal and property safety	91.87	Social protection	63.79	Transparency and accountability	88.70	Service delivery in social sector	70.62	Business environment promotion	84.53
Access to justice	77.00	Political parties registration and operations	76.87	Gender equality in leadership	83.24	Unity, reconciliation and social cohesion	93.95	Climate change and environmental resilience	73.43			Service delivery in economic sector	66.48	SMEs development and cross-border trade	73.60
Use of ICT in judiciary	91.40	Access to public information	84.86	Power sharing	87.00									Private sector promotion	91.40
		Respect for human rights	87.61												
		Core international human rights conventions	100.00												

Source: RGB Annual Report 2017/18 and *Imihigo* 2018/19.

each sector and each district and subsequently factored into the *imihigo* evaluations. Project implementation is monitored quarterly, development strategies and budget implementation are evaluated twice per year, and detailed household surveys are conducted every four years.

Building on *imihigo*, citizen report cards and other monitoring tools, as of 2012 annual governance scorecards were produced. District governments are ranked according to effectiveness of service delivery, based on citizen report cards. The coming introduction of a “government command center” will provide real-time information on project implementation and performance contracts, across the government (Figure 15).

To deepen the public dialogue on policy issues, the Rwandan government, the African Capacity Building Foundation, and Canada's International Development Research Center joined together to create, in 2008, an independent, nonprofit Institute of Policy Analysis and Research (IPAR-Rwanda). IPAR is charged with undertaking research and policy analysis to build domestic analytic capacity and provide a forum for public discourse on policy issues. IPAR produces reports, papers, and briefs that analyze the successes and failures of various sectoral policies at all levels of government.

Broad Ownership

First and foremost, ownership (and accountability) is promoted through an annual *Umushyikirano* (National Dialogue), which was started in 2003. The event brings the entire country together, almost literally, together to discuss the country's development progress and future plans. The President chairs the discussion, wherein citizens from all walks of life are encouraged to raise question and make comments and VIPs (Ministers, members of parliament, international stakeholders) listen. Over 1,000 citizens attend the event in person; the rest participate via internet, TV, and radio in various viewing centers, submitting their questions and comments via a range of platforms. Each year the National Dialogue is culminated with a summarized report of recommendations.

Ownership was also encouraged through, starting in 2000, a National Decentralization Policy, which created local government layers—which have been subsequently reshaped—and decentralized important aspects of public service delivery, notably health, education, agricultural services, and access to water and sanitation. The idea was to improve service delivery while breaking with the pre-1994 model of an all-powerful central government. The names of secondary cities were even changed (still creating a great deal of confusion, since the new and old names tend to be used interchangeably). Medium-term planning at the local level goes through the *imihigo* process and must be approved at the highest level of government. Decentralizing power to foster local participation, while maintaining power through strict accountability systems, is perhaps the most unique aspect of the Rwandan recovery experience because it combines ownership, accountability, and control. The literature is contradictory on the point: on one hand, Rwanda's decentralization is hailed as a great success since it has delivered notable development results. On the other hand, the strict accountability structures are seen as a means for controlling subnational governments, and the population, through strict oversight by the center. Mann and Berry (2015) argue that the Kagame government's "prioritization of growth and political control go hand-in-hand,"

and that the real aim is to create “an infrastructure of power—beyond economic growth—that is decentralized and imbedded into everyday life.”

Another way “home grown solutions” are operationalized is involvement of communities directly in nationwide development programs. The most well-known of these is *Umuganda*, or national service, a practice by which Rwandan residents are required to engage in community service and a community meeting on the last Saturday morning of each month. This practice predates the colonial era and pulls community members to work together on projects, such as building, repairing, and cleaning roads or houses for the poorest. Community service serves multiple goals: social cohesion, free labor for public service works, and two-way communication. Following an hour or two of work, a community meeting is held in the local language. The meeting provides an opportunity to convey new initiatives, laws and rules to citizens in an understandable manner, as well as an opportunity for citizens to channel feedback up through local government officials. This channel for communication is perhaps one of Rwanda’s most important innovations to ensure deep and broad ownership of policies.¹⁴

Another example is community involvement in development through the Vision 2020 Umurenge Program (VUP). The VUP program focuses on eliminating extreme poverty via community-based interventions and services (*Umurenge* means village) to support needy households. All households in Rwanda are ranked in four income categories, with the bottom two categories covering poorer households with the capacity to work and no capacity to work. The VUP program is comprised of three pillars: (1) cash support in exchange for work, for those households capable; (2) credit, to support gainful employment; and (3) direct cash support, for households unable to work. The VUP has been supplemented with programs such as “one cow per poor family” and, more recently, the construction of subsidized housing and utilities in each district, with clustered facilities for education, health, and security. There are several other community-level programs, for example, community level mediators and courts (*Abunzi, Gacaca*), which have played an important role in restoring and maintaining social order in the aftermath of the conflict.

Goal-Setting and Innovation

After initial stabilization, a comprehensive development strategy was crafted to guide reforms over the next 20 years. As noted in the 2018 OECD *States of Fragility* report, “addressing fragility is about moving from complexity

¹⁴The authors had the opportunity to participate in community services via *Umuganda* and observe its efficacy.

Table 1. Vision 2020 Components

Pillars	Cross-cutting areas
Good governance	Gender equality
Human resource development	
Private sector-led economy	Sustainable natural resource management
Infrastructure development	
Agricultural productivity	
Regional and international integration	Science and technology

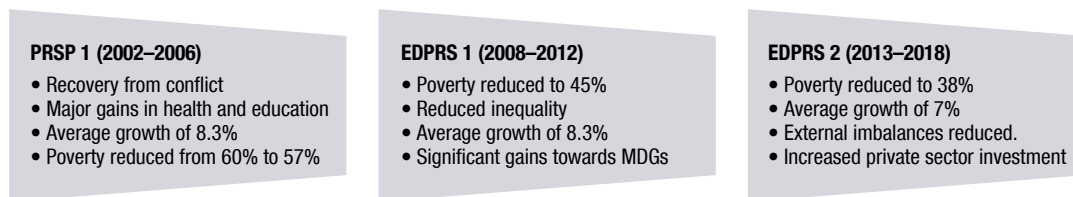
and categorization to concrete action.” Rwanda’s Vision 2020 was launched in 2000, after extensive consultation with stakeholders. Vision 2020 aimed to move the country to middle-income status over the course of 20 years, through ingredients considered essential based on the experience of other countries, in particular East Asia (Table 1). The premise was that improved economic and social standards would be the main route for escaping the ethnic tensions of the path, and thus create a means of escape from the “conflict trap” that had plagued Rwanda since independence.

Five program pillars were chosen to channel resources into improving income and living standards as rapidly as possible, while investing in future growth. Three cross-cutting areas reflected country-specific priorities: gender equality, for example, made good economic and security sense considering women comprised a majority of the population after the conflict. An intensive focus on science/technology aimed at leapfrogging costly technology that could become quickly obsolete. Sustainable management of natural resources was unavoidable for a small, land-locked, densely populated, topography-challenged country facing climate change. Vision 2020 was not successful in bringing Rwanda to middle-income status but did support a tripling of per capita income and achievement of the United Nations Millennium Development Goals.

Vision 2020 was implemented via detailed four-year strategies, with a changing focus as development needs evolved (Figure 16). Each strategy was comprised of several sector-specific plans linked closely with annual budget planning and execution, with imbedded monitorable indicators, evaluated twice per year. Through roughly 2012, the aggregated United Nations Economic Development and Poverty Reduction Strategies (EDPRS) focused on poverty reduction, improving health and education, and setting up basic infrastructure. From 2013–18, the strategy included more explicit measures to effect economic transformation, including promoting private investment for diversified production. The strategies were characterized by ongoing monitoring and evaluation that provided concrete feedback for adaptation over time.

The Rwandan government has incorporated innovation as a centerpiece of its development strategies. This calculated trial-and-error approach has

Figure 16. Rwanda: Four-Year Economic Development and Poverty Reduction Strategies



Source: Government of Rwanda.

resulted in some notable wins. One oft-cited example is Rwanda's progress in achieving almost universal health insurance coverage, which is responsible for Rwanda's striking gains in health outcomes (Box 2). The development strategies also emphasized creating infrastructure for technology. Fiber optic cables now run alongside main roads, with more than 95 percent of the population covered by 4G cellular networks. The Rwandan government's 2016 pioneer contract with Zipline, a private company using drones for cost-effective and fast blood delivery. By mid-2019, more than 65 percent of Rwanda's blood delivery outside of Kigali used Zipline. Zipline's success in Rwanda has opened new possibilities for medical service delivery that are being replicated elsewhere. Another example is *irembo*, an electronic platform for provision of 90 basic government services: for example, a birth certificate can be ordered online and received in one day, with the US\$0.50 fee paid via mobile app or credit card. Going forward, the government aims to move to a cashless economy, foregoing widespread use of credit cards to move directly from use of cash to mobile payment schemes. This involves, among other things, an extensive program to establish digital literacy among the population.

Following its Vision 2020, Rwanda is now in pursuit of middle-income status by 2035. Vision 2050 was launched in late 2018, with the aim of reaching middle-income status by 2035 and upper-income status by 2050. It will be carried out through a series of seven-year strategies: the first National Strategy for Transformation (NST-1), building on the structural transformation theme of the final Economic Development and Poverty Reduction Strategy (EDPRS) (Box 3). NST-1 is comprised of specific sectoral strategies that imbed achievement of the UN Sustainable Development Goals (SDGs). NST-1 not only imbeds development goals, but also seeks to build on and institutionalize the unique aspects of Rwanda's institutions to ensure accountability and ownership.

Box 2. Innovation and Adaptation: Mutuelles de Sante

A main component of Rwanda's success has been a willingness to innovate and adapt. One such showcase of this is its health sector. Rwanda is in many ways an inspiration to other countries in its commitment to universal health care. Rwanda is close to achieving universal health insurance coverage over the course of a decade, with a system that combines public and private financing and delivered rapidly improving health outcomes. Up until 1996 health services were free and of very poor quality. As of 1996 some cost recovery mechanisms were introduced, and in 1999–2000, health insurance schemes to pool risks were introduced for civil servants and in pilots in three districts. In 2004, these community-based health insurance schemes, *Mutuelles de Sante*, were extended.

To incentivize participation in Mutuelles, the government devolved full responsibility to the local health facilities for budgeting, service delivery, and hiring and provided financing based on performance outcomes as of 2005. Participation was further motivated by local authorities linking membership to other incentives. Insurance premiums are tiered, based on income, and government financing is based on pre-specific quantitative and qualitative indicators. The system created strong incentives to improve service delivery outcomes quickly, with improvements made on the basis of trial and error, and systematic provision of information, including training manuals in the local language, Kinyarwanda, to share best practices.

There are currently several health insurance programmes in Rwanda targeting specific groups of the population. However, the biggest in terms of membership is the mutuelles scheme, participation in which is organized on a per household basis, with an annual payment of 1,000 Rwandan francs (US\$2) per family member (WHO 2008).

The synergies of the locally based insurance schemes, performance-based financing, and decentralized responsibility created strong demand to opt into the scheme. Voluntary insurance coverage of the population increased from 7 percent in 2003 to, according to Rwanda's Ministry of Finance and Economic Planning—MINECOFIN, almost 90 percent in 2018.

Box 3. Vision 2050 and NST-1

Vision 2050 is linked to the drivers of growth identified in a 2018 joint study by the World Bank and the Rwandan government, which include building human capital; competitiveness and integration with outside markets; improving agricultural productivity; managing urbanization; a greater role for private sector activity; and continuing to build public sector institutions.

NST-1 is based on three pillars and several cross-cutting areas, reflecting a core set of principles (Table 3.1).

Principles:

- Complete unfinished business of Vision 2020 and EDPRS-2
- Lay foundation for achieving Agenda 2063, Rwanda Vision 2050, EAC Vision 2050, and SDGs
- Scale up home grown solutions, based on Rwandan culture, values, and context
- Develop the private sector as the engine for growth
- Ensure the sustainability and inclusiveness of results
- Lay the foundation for a quality standard of living for future generations

The ***economic pillar*** aims to accelerate growth through more private sector activity, promoting a knowledge-based economy (and jobs services, innovation, and industry), and drawing more on Rwanda's natural resources (mainly agriculture and mining). It imbeds specific targets, including for: job creation, export growth, urbanization rates, tourism receipts, digital literacy; national savings rate; agricultural productivity; and financial inclusion.

The ***social pillar*** aims to promote capable and skilled citizens, quality standards of living and a stable and security society. Its targets include eradicating extreme poverty; 100 percent access to water, electricity and broadband; universal access to quality health care; family planning; and eliminating gender-based violence.

The ***governance pillar*** covers a range of objectives, which also go beyond building a capable and accountable public sector in Rwanda, including strengthening the judiciary; fighting corruption; improving public resource management; providing more services for the Rwandan diaspora; promoting safety and security in Africa; and fighting against "genocide ideology" internationally.

Table 3.1.

NST-1	
Pillars	Cross-cutting areas
Economic Transformation	Capacity Development
	HIV/AIDs and non-comm. diseases
	Disability and social inclusion
Social Transformation	Gender and family promotion
	Regional integration and int'l positioning
Transformational Governance	Environment and climate change
	Disaster management

Conclusion

The Rwandan government, after an initial period of consolidating legitimacy and restoring basic services, set about purposefully to create policies and institutions that emphasized accountability, ownership, and goal setting. These drew from precolonial traditions, but also incorporated best practices from elsewhere. Strict accountability structures combined with decentralization and inclusion in decision-making have combined to create a broad mandate for extensive and frequent reforms. Rigorous monitoring and assessment of policies and programs have allowed for frequent adaption of policies and institutions for achieving better results. Rwanda's specific priorities for social and economic transformation have evolved over time, and these are reflected in its organic process for goal-setting. Going forward, its development strategies contain ambitious goals for development, but also seek build on and institutionalize Rwanda's unique approaches to accountability and ownership.

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Public Investment and Structural Transformation

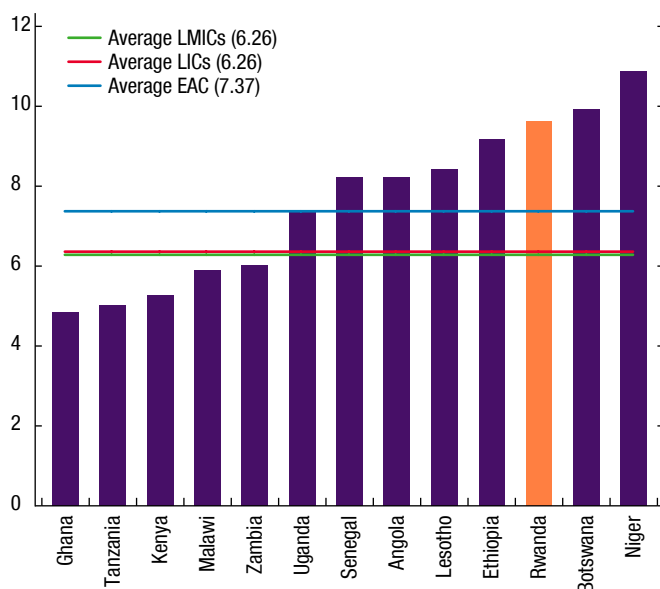
Large and carefully selected and managed public investment in Rwanda has helped achieve development outcomes, created growth-enhancing infrastructure, and fostered a shift toward higher value-added economic activities, all bolstering growth. Going forward, private investment will gradually need to become the main engine for growth.

Scale and Efficiency of Public Investment Spending

Compared to peer countries, Rwanda has channeled significant spending toward public investment (Figure 17). Public investment since 2000 has averaged about 10 percent of GDP, or about 50 percent higher than the average for low-income countries (LICs). This level of public investment has helped fuel Rwanda's very high growth rates. In line with Vision 2020, public investment spending has been directed toward human capital development; growth-enhancing infrastructure; and developing higher value economic activity in areas of comparative advantage. Rwanda's extensive public investment was initially financed by ODA, with improved domestic resource mobilization taking over an increasing share. Public investment in the first order is responsible for a share of Rwanda's growth story: over the period 2000–14, annual investment (roughly half public, half private) contributed about 40 percent of annual real GDP growth, while labor force growth contributed about 25 percent, and total factor productivity (TFP) contributed about 35 percent.

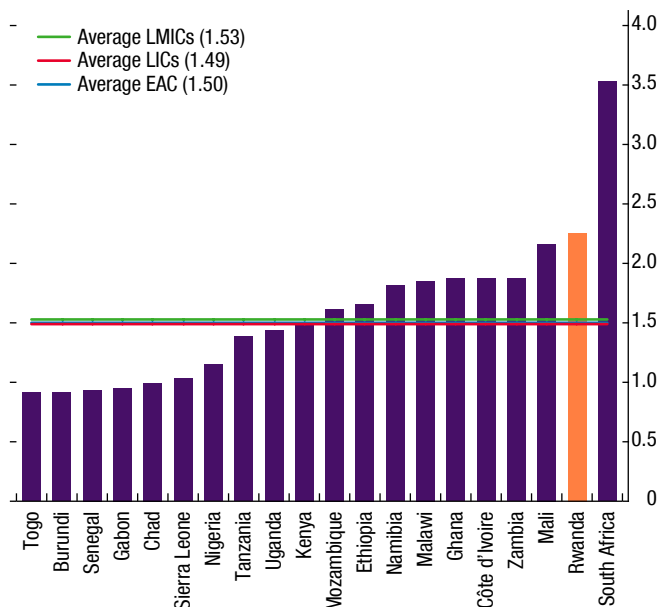
Good public investment management practices have contributed to the efficiency of spending (Figure 18). Rwanda is judged to have a robust public investment management process, as assessed by a public management index (Dabla-Norris and others 2011), based on four stages of project appraisal, selection, implementation, and evaluation.

Figure 17. Public Capital Spending, 2000–18
(Percent of GDP)



Source: IMF WEO database and staff calculations.

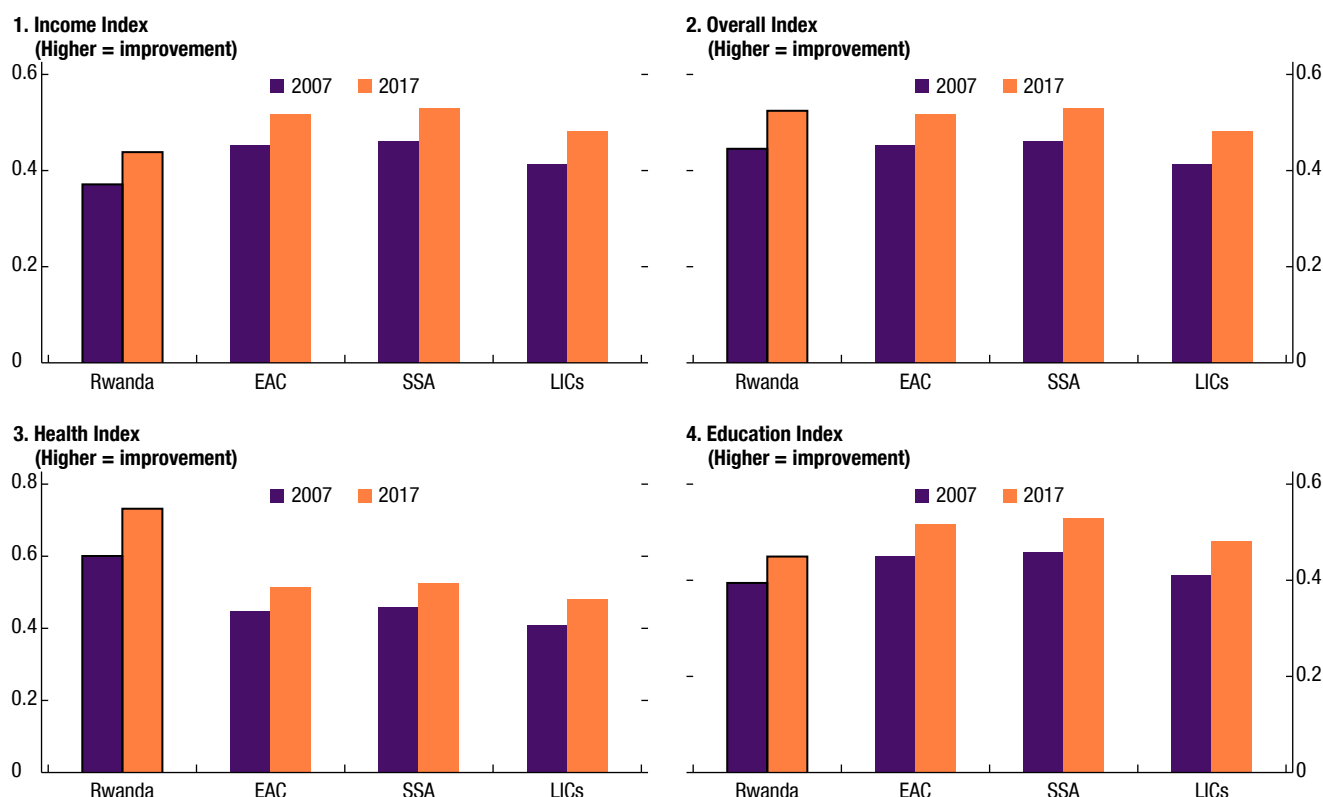
Figure 18. Public Investment Management Index
(Ranges between 0–4)



Source: IMF PIM Database.

Rwanda's system for appraising and choosing large public investment projects is noteworthy. For projects above a certain threshold (about US\$750,000) and public-private partnerships (PPPs), detailed feasibility studies are prepared, covering technical, financial, social, environmental, and economic aspects. The feasibility studies are assessed monthly by an investment committee, chaired by the Ministry of Economic Planning and Finance (MINE-COFIN). The committee evaluates each project according to specific criteria with a quantitative score, including social benefits, economic returns, and synergies with other ongoing projects. The committee also makes recommendations on financing, including whether and to what extent the private sector could be involved. On the basis of the scores, the projects are prioritized for annual and medium-term budget planning. A similar process is in place for local government projects, assessed by a District Investment Advisory Committee. Guidelines on the methodology for project appraisal are made public.¹ Approval for PPPs and joint ventures is granted by the Rwanda Development Board, in consultation with the Investment Committee. In general, this approach has been successful, with the high occupancy rate of the Kigali Convention Centre a noteworthy example. However, some other investments are proving costly (hotels, electricity generation PPPs).

¹Methodology for Project Appraisal November 2018.

Figure 19. Rwanda: Human Development Indicators

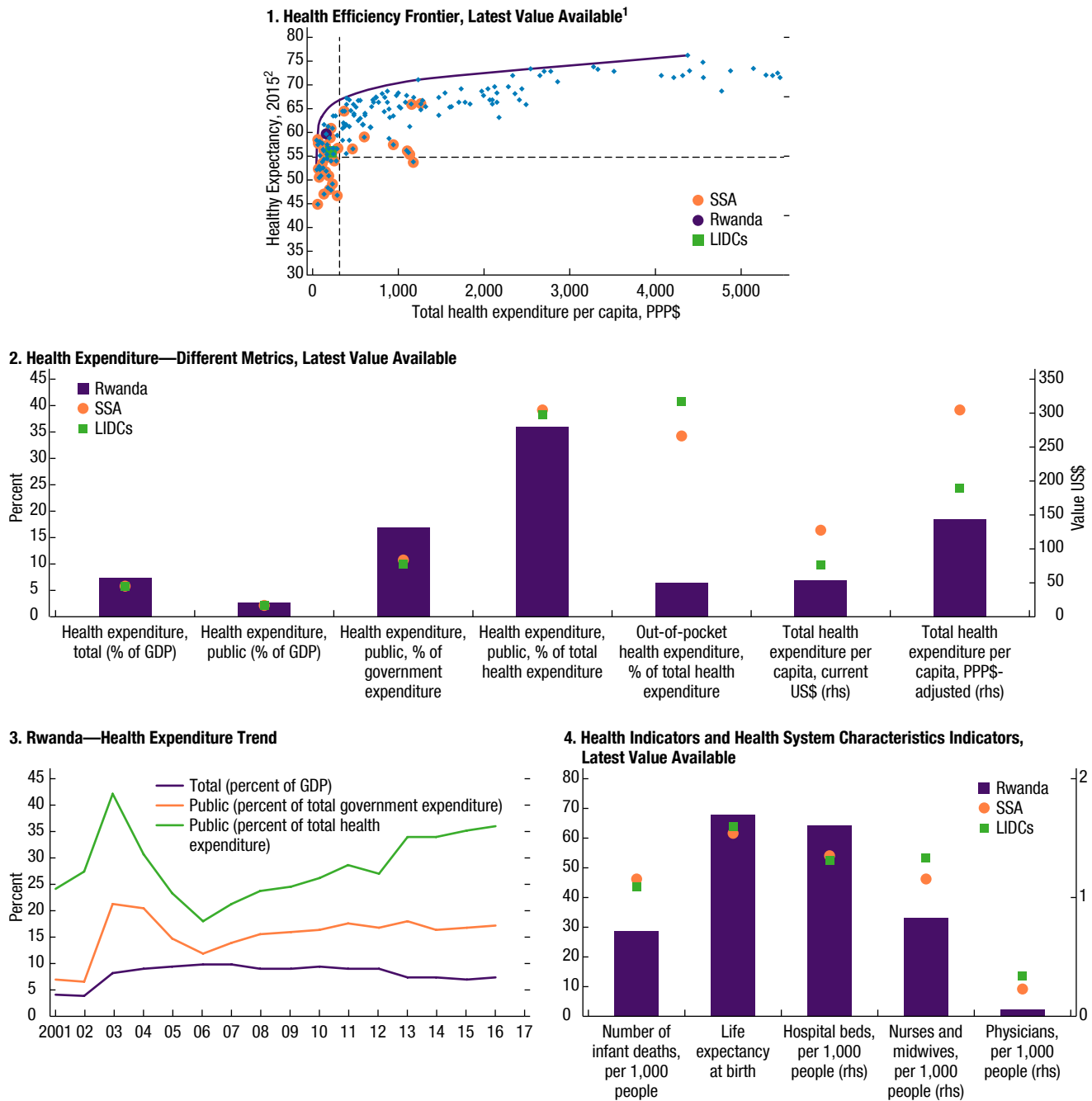
Source: UNDP, *Human Development Report, 2018 Statistical Update*.

A framework has also been established for oversight and implementation of projects with clear stakeholder roles and responsibilities. MINECOFIN houses a project monitoring unit, while the Ministry of Local Government is responsible for monitoring and evaluation of projects at the local level. Quarterly project execution reports, bi-annual assessments of the development strategy, and an annual Public Financial Management Report provide public information on aggregated monitoring and assess project results. The latter then provide feedback for the ongoing investment selection process.

Public Investment for Human Development

Public investment in the health sector has placed Rwanda's health indicators well above the peer country average, despite overall lower income (Figure 19). Rwanda spends roughly the same as most LICs; but has much better outcomes (Figure 20). Over time, the results have been marked: infant and maternal mortality rates have fallen by more than 500 percent since 2000

Figure 20. Rwanda: Public Expenditure Assessment, Health



Source: IMF Fiscal Affairs Department Public Expenditure Assessment Tool.

¹Dashes are the average of SSA.

²Healthy life expectancy (HALE) is a measure of health expectancy that applies disability weights to health states to compute the equivalent number of years of life to be lived in full health.

Figure 21. Maternal Mortality
(Per 100,000 live births)

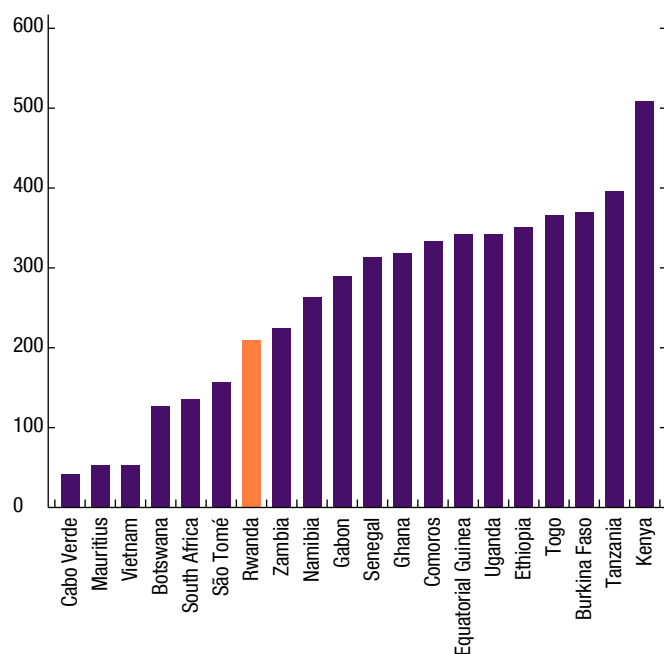
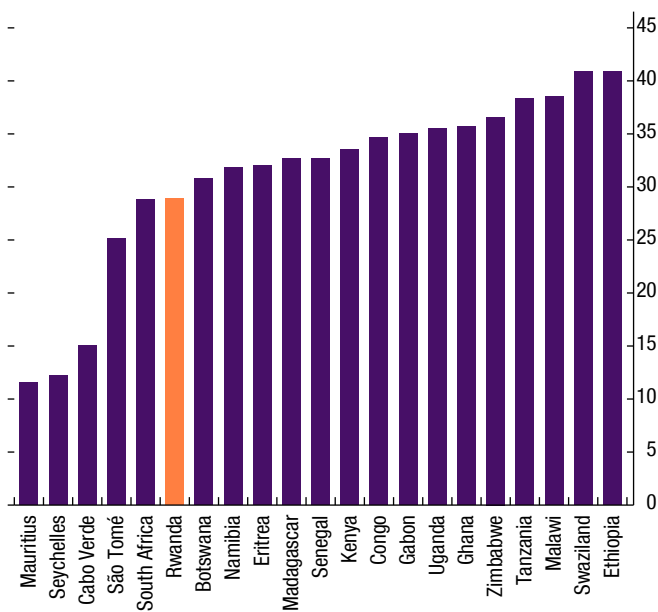


Figure 22. Infant Mortality
(Per 1,000 live births)



Source: World Development Indicators.

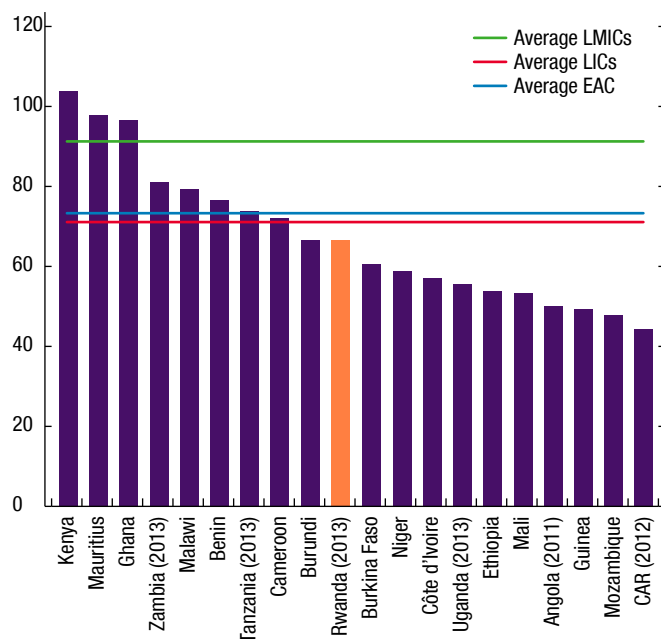
Source: UNDP (November 2015).

(Figures 21 and 22) and life expectancy of 68.7 years, as of 2018, is well above the SSA average of 61 (although stunting remains a problem).² This has been achieved through a combination of efficient use of public investment, home grown solutions and new technology. Innovations continue in the health sector, including the introduction of universal care for children younger than five, blood delivery by drone, using privately run health clinics for routine service delivery in rural areas, and the use of artificial intelligence for diagnostic purposes. Going forward, the health care system will face financial pressures due to expiring official grants at the same time as fast-rising life expectancies move the focus of health care away from contagious diseases to old-age diseases. To address these trends, the government is considering numerous measures to improve the cost efficiency of services and administration, while increasing burdensharing for beneficiaries.

By contrast, education outcomes have not been as strong, despite good access to primary education (Figures 23 and 24). In this area, Rwanda has generally spent less than its peers (Figure 25), especially on salaries that are considerably lower than in neighboring countries. While access is generally good,

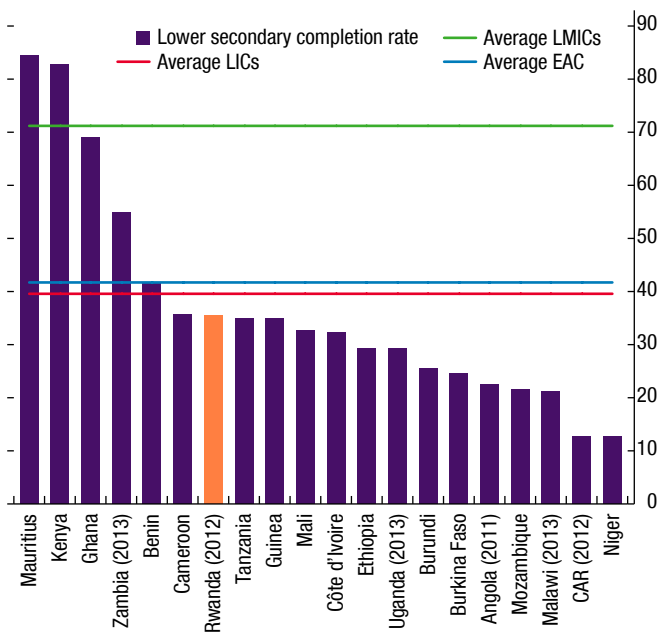
²UNDP (2018).

Figure 23. Primary School Completion Rate
(2014 except where stated)



Source: The United Nations Educational, Scientific and Cultural Organization (UNESCO).

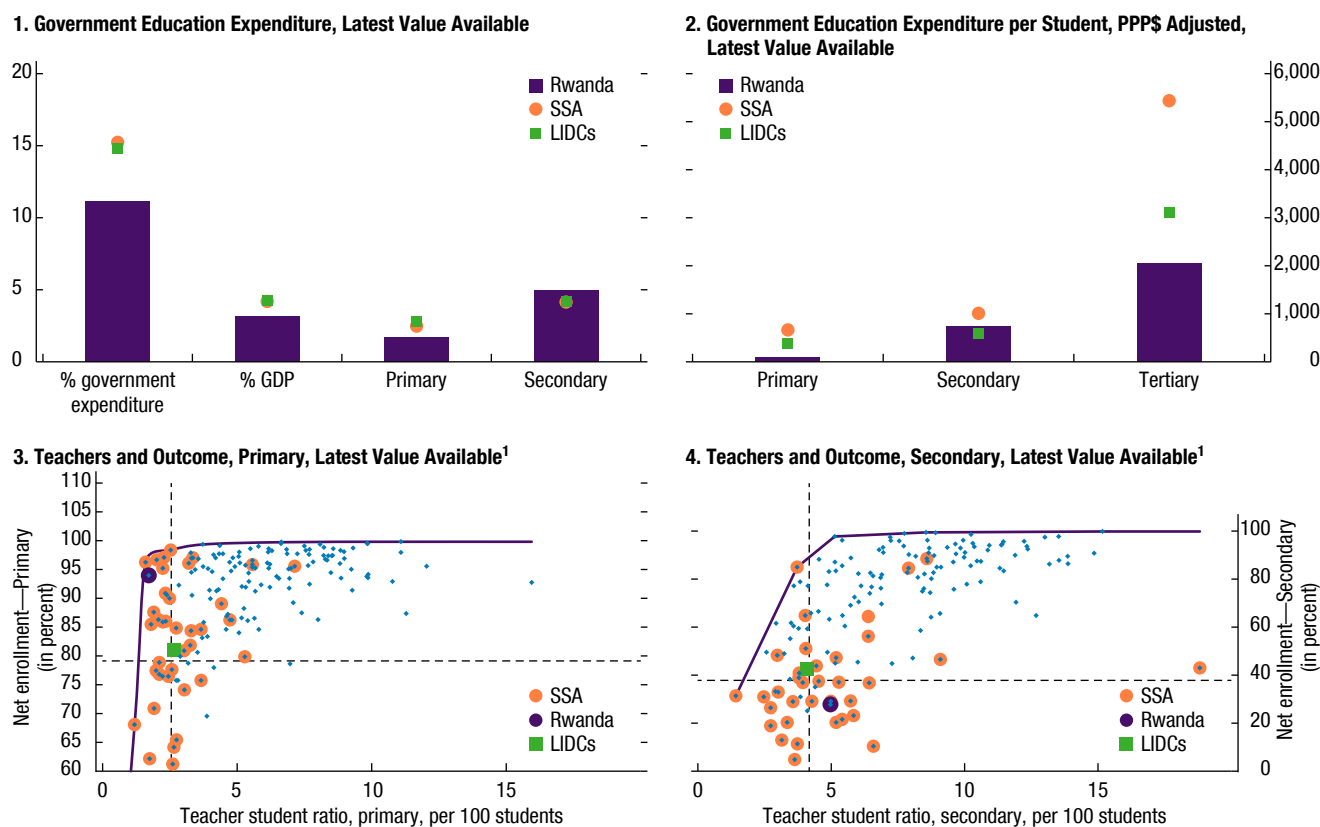
Figure 24. Lower Secondary School Completion Rate
(2014 except where stated)



Source: The United Nations Educational, Scientific and Cultural Organization (UNESCO).

repetition rates are high and completion rates low, and Rwanda does not participate in international testing that gauges the relative quality of education. Moreover, employers note that there are significant gaps in the education system, both in terms of problem-solving and targeted skills.

To date, the skills deficit has been addressed largely by allowing a free flow of labor from the other East African Community (EAC) countries. But the government and stakeholders acknowledge the problems, and efforts are underway to address them. More resources have gone in to upgrading teachers' skills, improving classrooms and access to laptops and the internet. Digital solutions to education delivery are being introduced, as are programs to foster innovation and digital literacy. Overall, there is a strong emphasis on math and science, as well as Technical and Vocational Education Training (TVET), and making Rwanda a "hub" for STEM research and development. However, addressing the problem will take time and considerable resources (see Chapter 7).

Figure 25. Rwanda: Public Expenditure Assessment, Education

Source: IMF Fiscal Affairs Department Public Expenditure Assessment Tool.

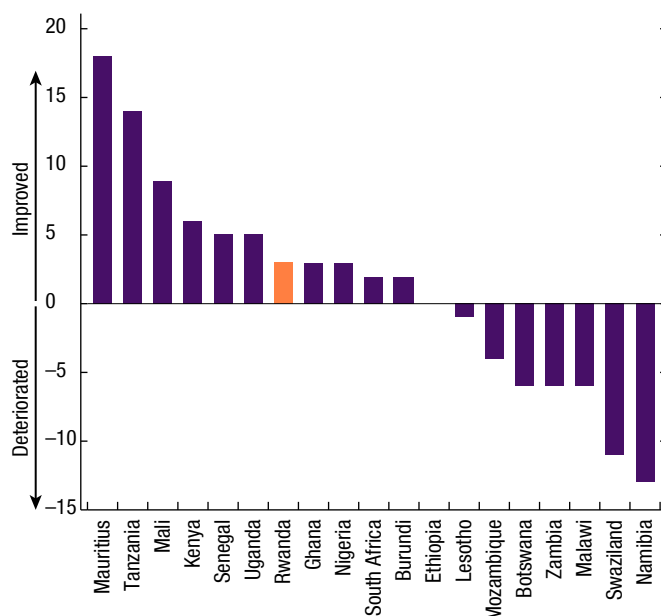
¹Dashlines are the average of SSA.

Public Investment for Growth-Enhancing Infrastructure

Public investment spending has also been directed at creating growth-enhancing infrastructure (Figures 26 and 27). Public investment for infrastructure has been concentrated in electricity, water, and roads, which are at roughly 50 percent of the NST-1 goals for access and quality. The World Economic Forum shows that Rwanda's gains in infrastructure rank well against peer countries. Here again, however, the spending needs to achieve outcomes in line with the best performers are assessed to be significant, as outlined in Chapter 7.

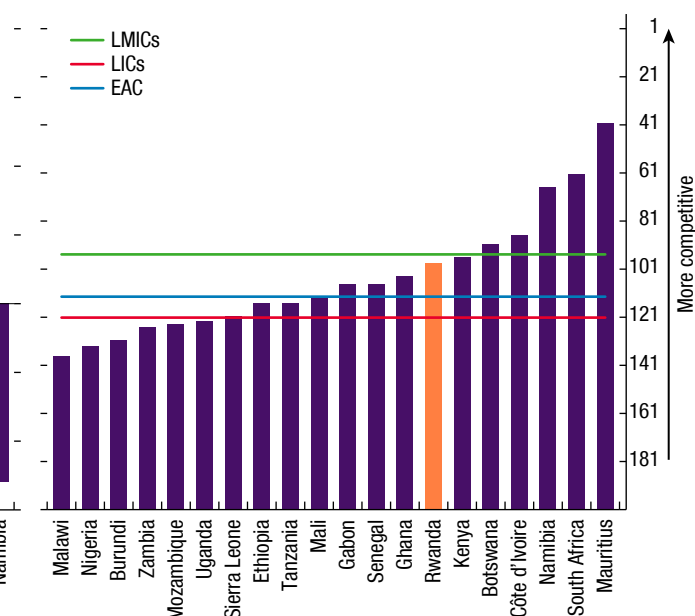
Under the NST, the government has an ambitious push to improve infrastructure. For example, the goal for electricity is 100 percent access by 2024 (both on-grid and off-grid). Currently Rwanda is in the unique position of having excess supply of energy, through a combination of PPPs for thermal,

Figure 26. Global Competitiveness Index for Infrastructure
(Change in rank from 2010 to 2017)



Sources: World Economic Forum; and IMF staff calculations.

Figure 27. WEF Global Competitiveness Index for Infrastructure
(Ranking order)



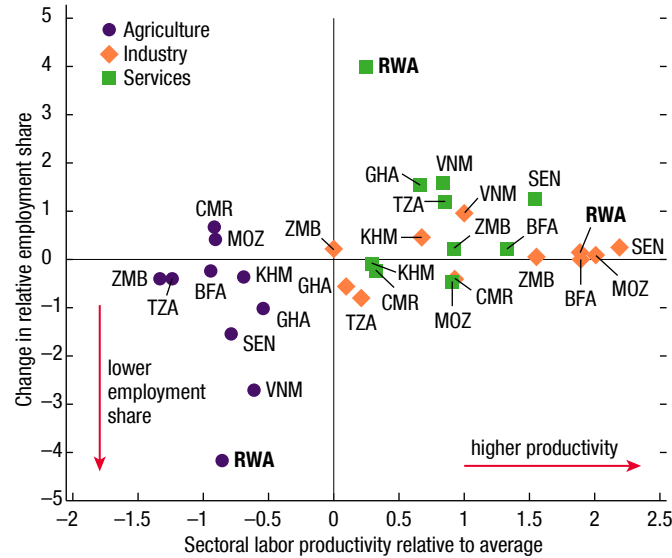
Sources: The Global Competitiveness Report 2018 (WEF); and IMF staff calculations.

hydro, peat, methane, and solar sources, meaning that future investment need are in distribution and access.

Structural Transformation and Public Investment

Sub-Saharan Africa's experience with structural transformation differs from late industrializers from East Asia in terms of pace and pattern. This difference reflects a different global environment characterized by rapid technological changes blurring the lines between manufacturing and services, rendering manufacturing more like services and services sector like manufacturing (Newfarmer and Tarp 2018). Over the 2000–10 decade, sub-Saharan African countries saw a large shift of workers from agriculture to services and manufacturing. The movement of workers from low- to high-productivity employment has contributed far less to growth in SSA than late industrializers. McMillan and Rodrik (2012) analyzed developments in SSA during an earlier period (up to 2000) and found workers moving into lower-productivity sectors. Recent evidence (Fox, Haines, and Huerta-Munoz 2013), suggests otherwise (Figure 28).

Figure 28. Labor Productivity and Changes in Employment Shares, 2000–10
(Percent)



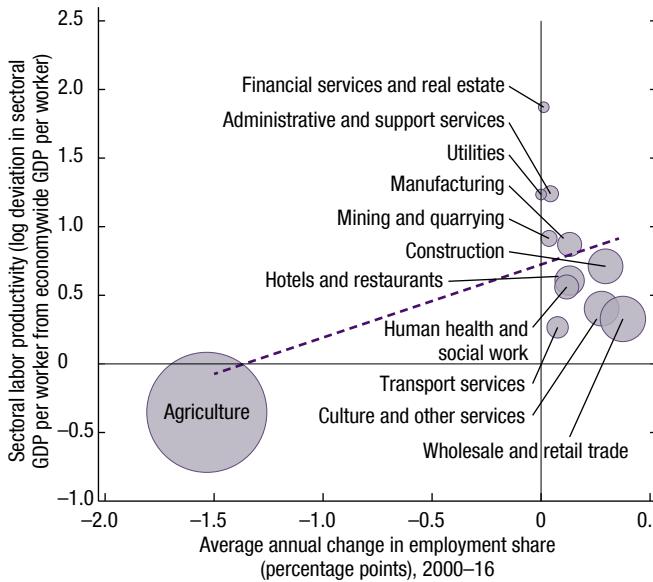
global economy and the increasingly blurred line between services and manufacturing. This is also the view of Newfarmer and Tarp (2018), who argue that agro-processing and services, so-called industries without smokestacks, have generated jobs that display many of the desirable aspects of manufacturing (for example, high productivity, tradability, import of know-how) and offer the best growth potential going forward.

Public investment has also been directed toward improving agricultural productivity, where the bulk of the population is still employed. 70 percent of Rwanda's workforce is engaged directly or indirectly in agriculture. In this sector, interventions have focused on increasing yields and diversifying output, including for regional markets. Productivity has improved through expanded irrigation and fertilizer use, the use of improved seeds, and consolidation of land used for larger-scale agriculture. A crop intensification program initiated in 2008 has improved seed availability, expanded extension advisory services, and improved mechanization and post-harvest handling. Experimentation with new products aimed at diversifying exports and limiting climate change risks has opened up new markets for flowers, green beans, livestock, hides and skins, among others.

Since 2010, more employment has been created in manufacturing in Rwanda, although productivity levels remain low relative to peer countries. While productivity was responsible for about one-third of Rwanda's growth during 2000–14, it benefited from repatriation of a well-educated diaspora from outside the country and other imported labor. Those gains have waned over time. The World Bank constructed an employment series from 2000–16 (Figure 29 from the World Bank growth study), which suggests an annual decline of 1.5 percentage points in agriculture as a share of total employment (a slower development compared to 2000–10), with aggregated commensurate gains in key areas such as wholesale and retail trade, construction, hotels and restaurants, manufacturing, transport, and mining. Shepherd and Twum (2018) argue that while there has been movement into higher value-added sectors, overall productivity has suffered because productivity within sectors has stagnated.

Bolstering productivity further will require that human development, capital development (including infrastructure), and technological advances create synergies in a virtuous cycle (Figure 30). Under the NST, government interventions have strived to introduce more innovation and greater productivity into existing activities, while targeting more simple manufacturing. The government has shifted strategies to promote more productivity within existing sectors, which can better combine employment creation, learning by doing, and comparative advantage, for example, agro-processing, horticulture, and increasing value in existing sectors, for example, washed coffee, processed

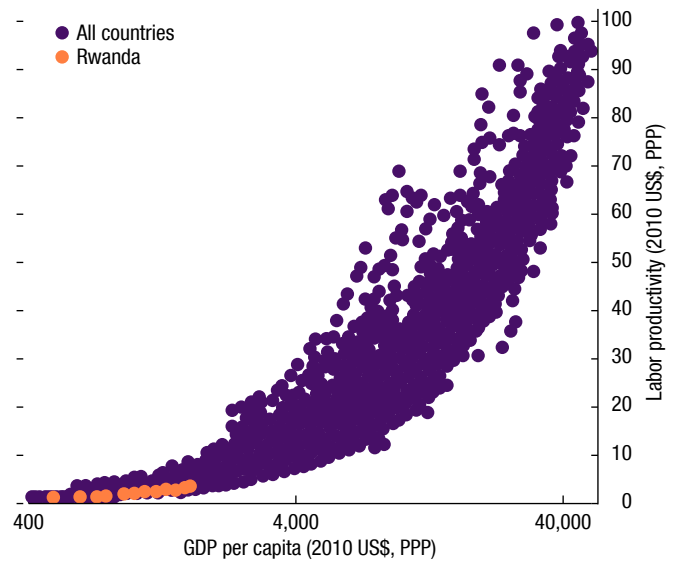
Figure 29. Rwanda: Sectoral Labor Productivity and Annual Change in Share of Employment, 2000–16



Sources: Derived from Diao, Randriamamonjy, and Thurlow 2017; World Bank, 2018.

Note: The bubble sizes indicate the share of total employment in 2016.

Figure 30. Labor Productivity and GDP per Capita in Rwanda and Other Countries



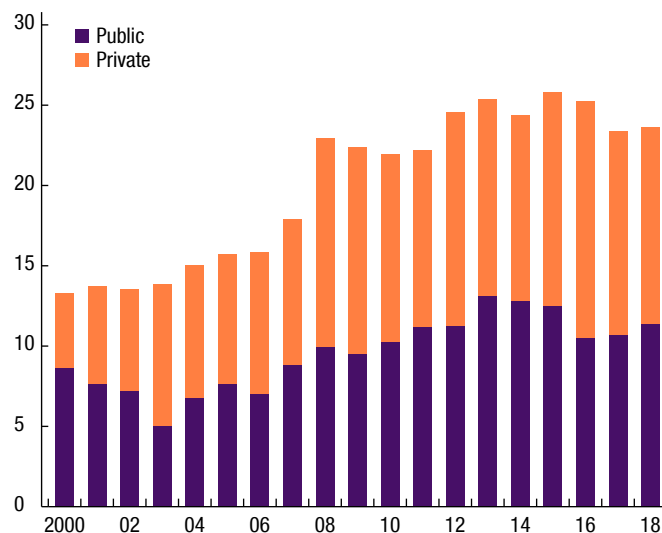
Sources: Calculation based on Penn World Tables 9.0 data (Feenstra, Inklaar, and Timmer 2015); World Bank, 2018.

Note: PPP = purchasing power parity.

minerals, construction materials. Plans are still under way to stimulate financial services and information and communications technology, but with a recognition that more investment in education is needed to create the needed skills base. In 2013, Rwanda also established a new National Industrial Research and Development Agency (NIRDA), mandated to provide public support for industrial innovation and competitiveness through the acquisition and training for new technology and research. In addition to providing support and training to existing business owners, NIRDA is conducting audits in existing economic sectors to explore means for introducing new technology and improving efficiency. NIRDA and Rwanda Development Board (RDB) are also exploring how Rwanda can better link into global value chains, recognizing that the Asian tiger model—creating full value chains of production for export—is not practical for Rwanda given its proximity of high-income markets and the 21st century's complex global trade flows.

Private investment has increased significantly, but the public sector still accounts for about half of all investment (Figure 31). In recent years, the high level of public investment also reflects large projects, in particular in the Kigali Convention Centre, the Kigali Arena, and investment in RwandAir expansion. Given the resulting build up in public debt and ODA trends, the room to sustain such high public investment is limited. Chapter 5 focuses

Figure 31. Rwanda: Public and Private Investment
(Percentage of GDP)



Source: National Institute of Statistics Rwanda (NISR).

on measures to promote private investment as the main engine of growth. Chapter 7 focuses on the private sector's role in meeting the significant costs of implementing Vision 2050.

Conclusion

Public investment, largely financed by ODA, has been a significant part of Rwanda's growth story. Extensive public investment has been carefully chosen and executed to improve development outcomes, create infrastructure and promote structural transformation. However, waning ODA trends will make current levels of public investment difficult to maintain. Private sector growth and productivity will need to serve as engines of growth going forward. Productivity increases accounted for about one-third of growth in the past two decades but was bolstered by the return of well-educated diaspora and imported know-how. Improving domestic productivity and private sector activity will depend on improving education, reducing input costs, and expanding access to markets.

Raising Domestic Resources

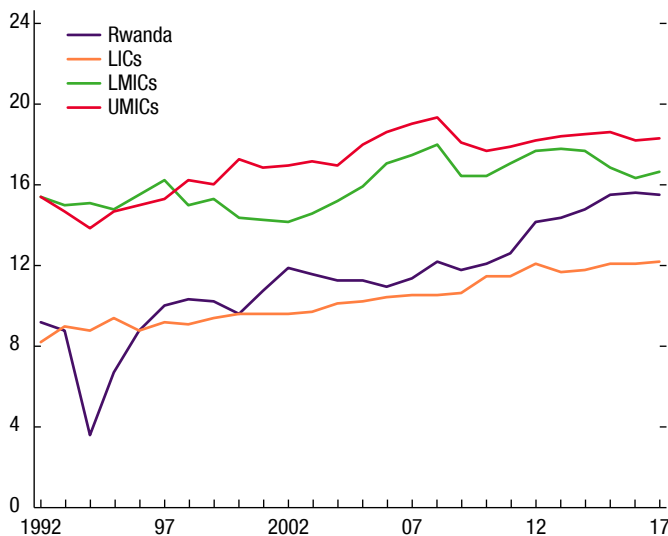
As noted in earlier chapters, Rwanda has been pursuing a range of capacity-building and state-building policies since mid-1990s. In the face of declining aid receipts, a major policy objective has been to mobilize domestic revenues to provide adequate resources to sustain development objectives. The successes in achieving the objectives of tax policy reforms and revenue administration modernization measures owed to Rwanda's agile policy making, including its accountability framework, and were supported by technical assistance from developing partners, including the IMF, and contributed to authorities' state building, capacity building, poverty reduction, and gender- and income-inequality alleviation efforts. This chapter accounts for Rwanda's successes in mobilizing domestic revenues, and discusses challenges going forward.

Introduction: Impressive Performance in Tax Revenue Mobilization

Rwanda's tax revenue performance in the past 25 years has improved significantly, designed to support its development objectives. Policy measures were consistently implemented to broaden the tax base and improve the efficiency and effectiveness of tax administration. The basic characteristics of Rwanda's tax system are a progressive tax structure for earned income, flat taxation of investment income, presumptive taxes for small businesses, and a "pay as you earn" system for collecting earned income. Why were policy actions more sustained and effective in Rwanda than elsewhere? Effective integration of technical assistance recommendations and outside advisors is part of the story, but Rwanda's strong accountability framework, including through *imihigo* contracts and the leadership retreat, is also important.

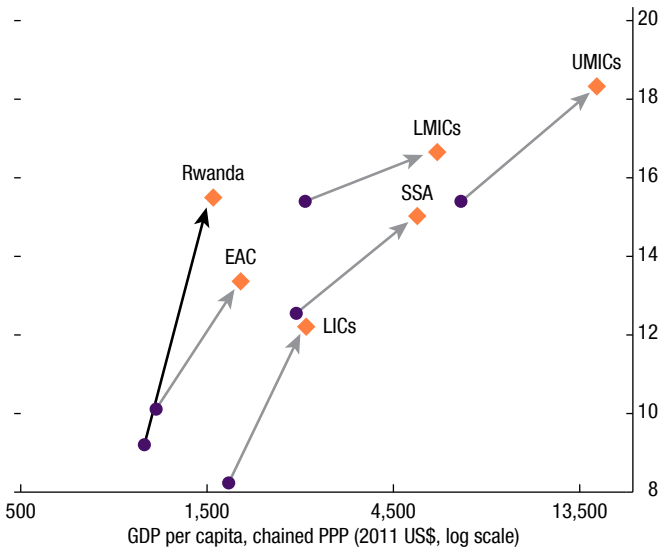
Rwanda's success in tax revenue mobilization is impressive given the low starting point. In 1992, Rwanda's average tax revenue ratio at 9.3 percent of GDP was about the same as LICs on average (Figure 32). This low base

Figure 32. Tax Revenues
(Percent of GDP)



Sources: IMF WEO; and staff estimates.

Figure 33. Tax Revenues versus GDP per Capita
(Percent of GDP, 1992 vs. 2017)



Sources: Penn World Tables; WEO; and authors' calculations.

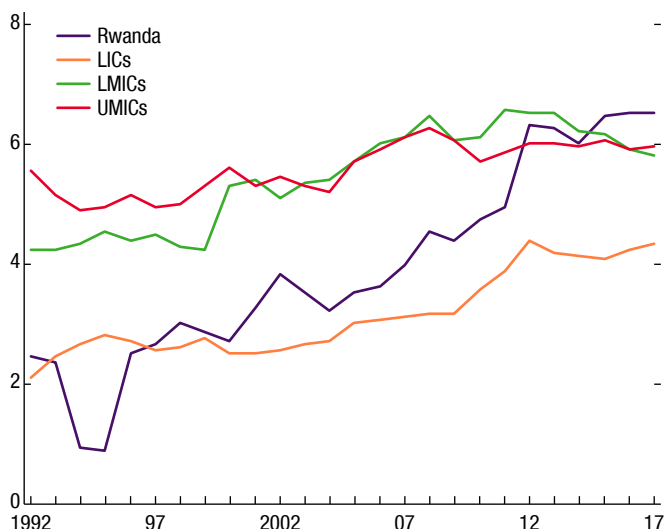
reflected relatively low per capita income, predominance of subsistence and informality, widespread tax exemptions, and weak tax administration (IMF 2000). Following several temporary measures, tax revenues recovered to pre-conflict levels in 1997. Rapid implementation of structural measures including a tax reform program and the creation of the Rwanda Revenue Authority (RRA), were critical to this success. By 2017, tax revenues reached a level slightly below the average of lower middle-income countries (LMIC).

Rwanda's improvement in domestic tax revenue, when benchmarked against per capita income, has been faster than peer countries (Figure 33). Improvements outstripped regional East African Community peers and LIC averages and brought the revenue effort nearly to the level of LMIC averages. This success reflected a set of steps encompassing policy actions for widening the tax base, changing the type of imposed taxes when necessary, enacting laws for regulation and enforcing compliance as well as building tax administration capacity.

Much of the improvement has been in direct tax performance. For instance:

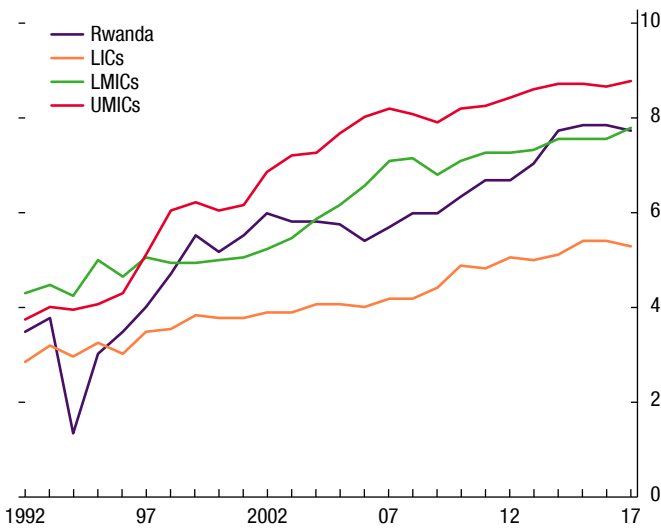
- Since 1992, Rwanda's direct tax collection nearly tripled from 2.5 percent of GDP in 1992 to 6.5 percent of GDP—a level which now surpasses the average for upper-middle-income countries (UMICs) (Figure 34). Income tax receipts from individuals are the greatest contributor with

Figure 34. Direct Taxes
(Percent of GDP)



Sources: IMF WEO; and staff estimates.

Figure 35. Taxes on Goods and Services
(Percent of GDP)



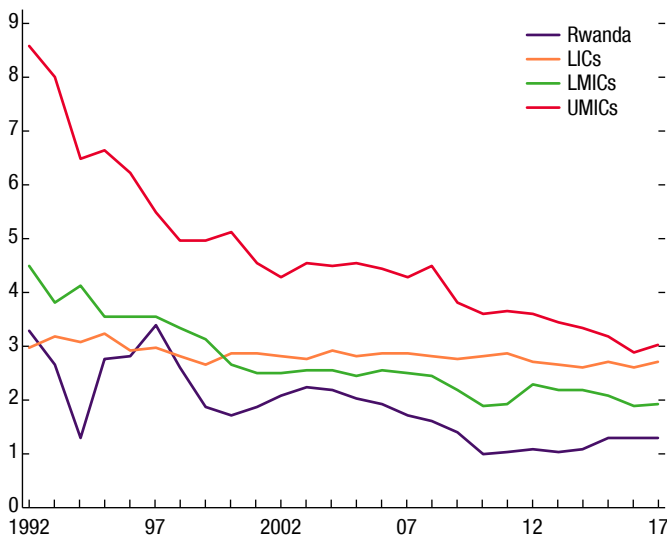
Sources: IMF WEO; and staff estimates.

2.7 percentage-points, where corporate income tax collections rose by 0.7 percentage points; and other direct receipts increased by 1 percentage point of GDP (receipts from licenses and property taxes decreased by 0.5 percent of GDP over the horizon).

- Rwanda's tax revenues on goods and services now outperforms the average LMIC—having mobilized an additional 4.2 percent of GDP since 1992 (Figure 35). The introduction of valued-added tax (VAT) in 2001, in place of the turnover tax, was a major contributor.
- Similar to its peers, taxes on international trade have declined over the past 25 years (Figure 36). This decline reflected regional integration aspirations and specifically, policies to prepare for Rwanda joining the East African Community (EAC) customs union in July 2009.

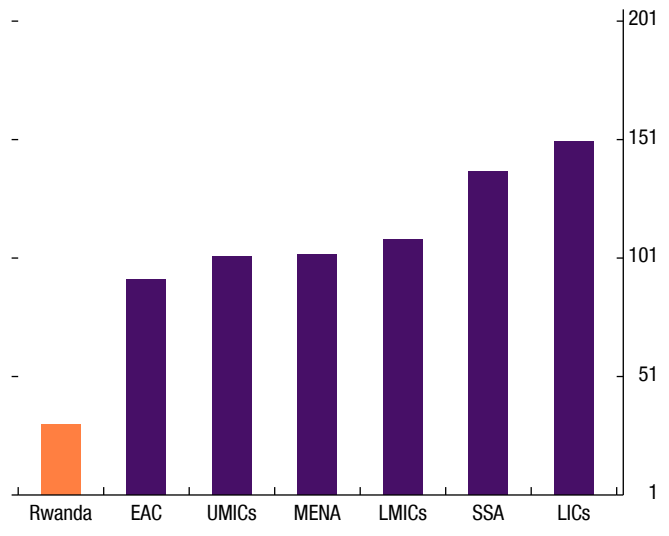
Supporting the impressive increase in tax revenues has been the modernization of the tax system. Modernization efforts are evidenced by Rwanda's high ranking in ease of paying taxes (Figure 37), with the World Bank 2018 Doing Business Report ranking Rwanda 31st among 190 countries. Rwanda outperforms the averages for all relevant comparator income group averages and in SSA is ranked only behind the Seychelles, Mauritius, and Zambia. This result reflects Rwanda's ability to build one of the most efficient tax administration models globally by adopting a systematic approach that addressed weaknesses supported by technical assistance from development partners, including the IMF. These efforts have supported an elevated level of

Figure 36. Taxes on International Trade
(Percent of GDP)



Sources: IMF WEO; and staff estimates.

Figure 37. Paying Taxes
(Ranking between 1st–190th)



Sources: World Bank Doing Business (2018); and staff calculations.

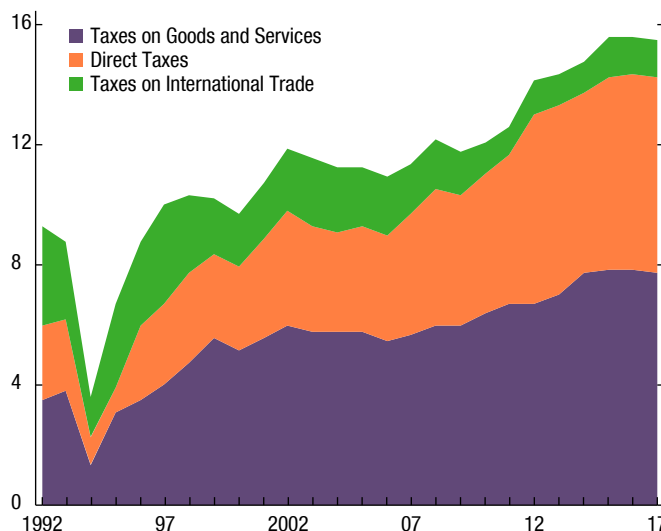
compliance and provided the revenue authority with a cost-effective way of tracking and enforcing tax liabilities.

Decomposing What Worked

Domestic revenue mobilization was an urgent necessity following the 1994 genocide against the Tutsis, to provide immediate financing for social and economic policy priorities. Since 2000, the focus of revenue mobilization has been to finance development policies while mitigating the risks from a potential reduction in official development assistance. Sustainable policy actions have been systematically undertaken to increase tax revenues by broadening the tax base and providing an efficient and effective tax administration.

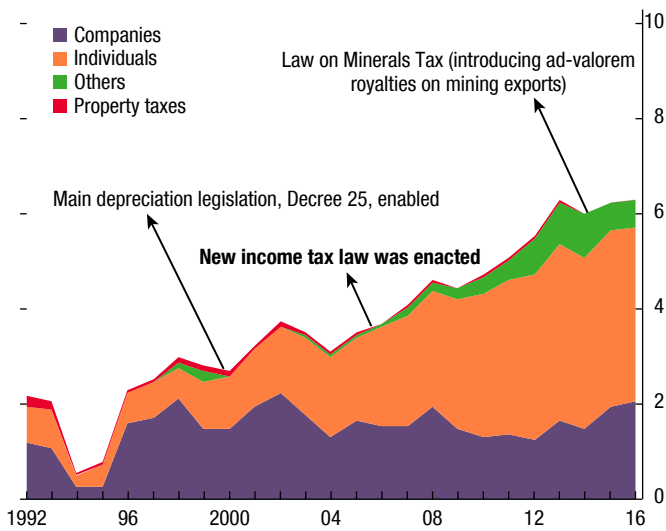
The sequencing of policy steps to mobilize revenues is important. IMF (2017a) identifies the importance of sequencing domestic revenue mobilization in post-conflict situations and identifies a roadmap. Typically, the initial focus of domestic revenue mobilization efforts should be on fast gains such as high-yielding excise taxes and customs duties at the border since these are less prone to evasion and can, at a later stage, provide the basis for the adoption of VAT. The subsequent focus can then be on broadening tax collection efforts and building administrative capacity. Once countries are more stable, the focus can turn to modernizing fiscal administration supported by medium-term revenue strategies.

Figure 38. Rwanda: Tax Revenues
(Percent of GDP)



Sources: Authors' calculations; and IMF WEO Database.

Figure 39. Rwanda: Direct Taxes
(Percent of GDP)



Sources: IMF WEO; and staff estimates.

Rwanda's revenue reform strategy has been consistent with such sequencing (Figure 38). Initially, tax revenues were dominated by those on goods and services, but improvements in administrative capacity have supported increasing direct tax revenues over time. Initially the Large Enterprise Unit was created to collect taxes from the 150 largest corporate taxpayers. In 1997, the RRA was established to develop tax administration capacity as a dedicated agency to regulate, enforce compliance, and provide accountability. After the establishment of RRA, continuous improvements to laws and regulations were made to ensure an effective and efficient tax collection. (MINECOFIN retains to have authority on tax policy, although in practice works hand-in-hand with RRA, which has more capacity on the topic.) In addition to the standard duties of revenue agencies, RRA engages in outreach on tax laws and regulations, provides tax advisers, and holds consultative meetings with large taxpayers (among others see Schreiber 2017).

Reforms to Direct Taxes

The RRA undertook various reforms to unlock significant gains from restructuring direct taxation (Figure 39). Following mechanisms to collect taxes from large corporations, the RRA introduced targeted changes to tax legislation to boost collections from individuals and smaller companies. As a result, the personal income tax (PIT) collections to GDP ratio has nearly quadrupled since 1997 without major changes to the relevant tax rates, and corpo-

Table 2. Rwanda: Income Tax Brackets versus Per Capita GDP

Income Tax Schedule (2005–2017)		Tax bracket in US\$ ¹	
<i>Tax bracket (RwF)</i>	<i>Tax rate</i>	<i>(2005)</i>	<i>(2017)</i>
0–360,000	0	0–645	0–433
360,001–1,200,000	20	645–2,151	433–1,443
1,200,001 and greater	30	2,151 and greater	1,443 and greater
Memorandum item			
GDP per capita in US\$		293	771

Sources: Rwandan Authorities and IMF WEO Database.

¹Converted to US dollar using annual average exchange rate.

rate income tax (CIT) collections from small enterprises while still relatively small, at 0.6 percent of GDP in 2016, have nearly tripled since 2000.

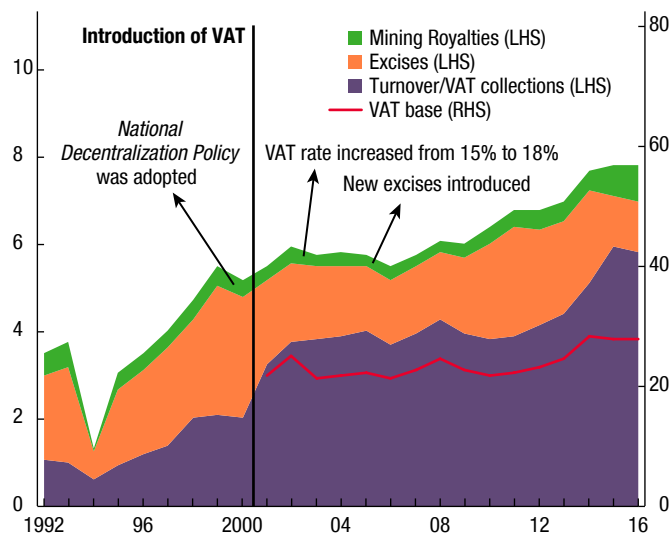
Improvements in PIT progressivity and RRA modernization efforts have supported increases in PIT revenues. Until the mid-2000s, like many other developing countries, Rwanda's PIT revenues were low and stagnant (IMF 2011a). Income tax law legislation enacted in 2005 simplified the PIT rates and set the nominal income brackets which remained unchanged until mid-2018.¹ The contribution of progressivity from unchanged tax brackets in the past 13 years can be illustrated by the following example (Table 2). The average per capita income rose to US\$717 in 2017 from slightly below US\$300 in 2005 while the lower threshold of 20 percent income tax rate dropped from US\$625 in 2005 to \$433 in 2017.

Besides progressivity, continued improvements to the modernization of the RRA, which boosted compliance, also contributed to the strong performance of PIT collections. These have led Rwanda to rank very highly on the World Bank's Doing Business "ease of paying taxes" relative to peers. Milestones included:

- In the latter half of the 1990s, RRA restored the capacity of the customs and tax administration through the provision of basic equipment and the reinforcement of surveillance and anti-smuggling operations. The government also initiated a program to combat tax evasion and streamline tax incentives by enhancing transparency (IMF 2000; Nakamura and Williamson 2015).
- In the 2000s, RRA reorganized direct taxes by simplifying income tax arrangements in the form of a turnover tax or *forfeit* for small traders, along with a presumptive income tax on commercial vehicle owners. Furthermore, RRA enacted reforms to strengthen the tax system by reducing high corporate tax rates and expanding the base of income taxes in the early

¹The main law organizing direct taxation was enacted 2005. The brackets for income tax were set in the new Income Tax Law of 2005 (Official Gazette, LAW N° 16/2005, 2005).

Figure 40. Rwanda: Taxes on Goods and Services
(Percent of GDP)



Sources: IMF WEO and staff estimates.

2000s, which coincided with the start of the divergence in performance for CIT and PIT receipts.

- In order to boost compliance, RRA implemented the *Standardized Integrated Government Tax Administration Systems* (SIGTAS) in 2003 and introduced computerized systems to support customs operations, HR management, financial management, and taxpayer audits with technical assistance from development partners.
- Electronic filing and electronic tax registration were introduced in 2010 (IMF 2012a; Kopanyi 2015).
- By 2016, RRA had migrated from SIGTAS to a new system, E-Tax by TATA Consultancy services (IMF 2016).

Reforms to Taxes on Goods and Services

In the latter half of the 1990s, Rwanda's domestic revenue mobilization efforts included some short-lived policies for rapid revenue generation, targeting taxes on goods and services (Figure 40). These included establishing a temporary export duty on coffee; standardizing the sales tax at 10 percent for all locally produced goods as well as imports; and hiking the excise tax for alcohol, soft drinks, and petroleum (IMF 2000; Nakamura and Williamson 2015). Thanks to these reforms, Rwanda could finance structural reforms, including investments in improving tax administration and the adoption of

National Decentralization Policy in 2000, where districts were allocated local taxation sources, for example, property taxes and taxes on trade licenses.

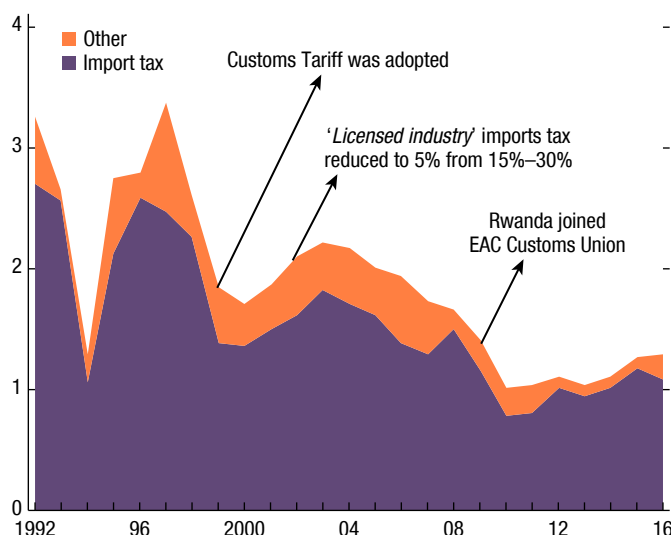
Since the early 2000s, reforms to taxes on goods and services have focused on widening the tax base and modernizing RRA operations to reduce revenue leakages. The value-added tax (VAT) was introduced in 2001 at 15 percent, replacing the turnover tax and narrowing the use of excise taxes. The VAT is administered in a dedicated RRA building, with separate audit units and staff.

- In 2003, the VAT rate was increased to 18 percent. This increased VAT revenues by slightly more than 1 percentage point of GDP. Performance was undermined due to a number of exemptions, including petroleum products, which were removed in 2010/2011 (IMF 2012a).
- To improve VAT compliance, RRA introduced quarterly filing and payment requirements for small VAT taxpayers, and Electronic Transaction Devices. RRA also simplified procedures by allowing direct bank payment of tax liabilities and electronic data upload from banks (IMF 2011b).
- In 2017, the fixed asset tax was modified to introduce more emphasis on the value of property and an expansion of the taxpayer base, although there is plenty of scope for further improvement. Modernization continued through building facilities to support government databases, such as electronic land-records system, banking data and city data (Steenberg, von Uexkull, and Thum 2018; Kopanyi 2015).
- Efforts to improve the gains from mining revenues include a value-based scale for mining royalties, changes in exploration and licensing fees, and more attention to transfer pricing.

Reforms to Taxes on International Trade

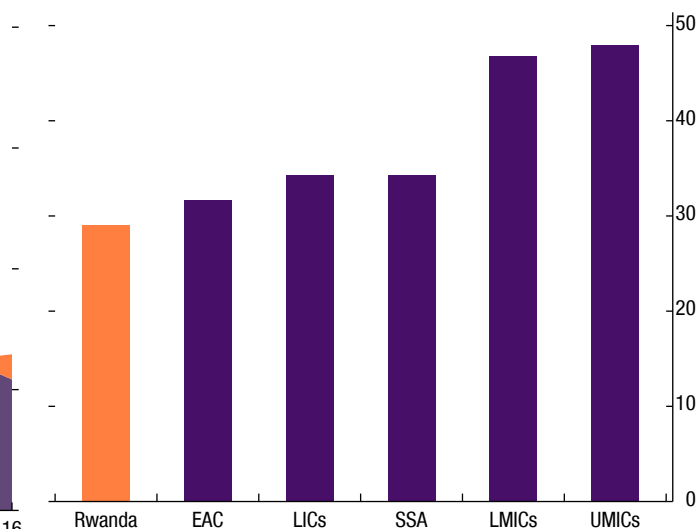
Rwanda's taxes on international trade, as a share of GDP, have shown a steady decline since 1997, reflective of efforts toward greater regional economic integration (Figure 41). Rwanda launched *Revenue Authorities Digital Data Exchange* (RADDEX) with regional peers to coordinate the flow of goods among East African Community members. Earlier, important revenue sources such as taxes on imports for large industries, called *licensed industries*, were trimmed to 5 percent from the previous levels, ranging from 15 percent to 30 percent. After joining the Customs Union, in 2009, policies were enacted to comply with EAC rules such as the elimination of intra-region tariffs and the establishment of common external tariffs.

Figure 41. Rwanda: Taxes on International Trade
(Percent of GDP)



Sources: IMF WEO; and staff estimates.

Figure 42. VAT C-Efficiency*
(Percent)



Sources: Authors' calculations; and IMF WEO Database.

*Actual VAT collections as a share of potential base (consumption).

Challenges in Revenue Mobilization

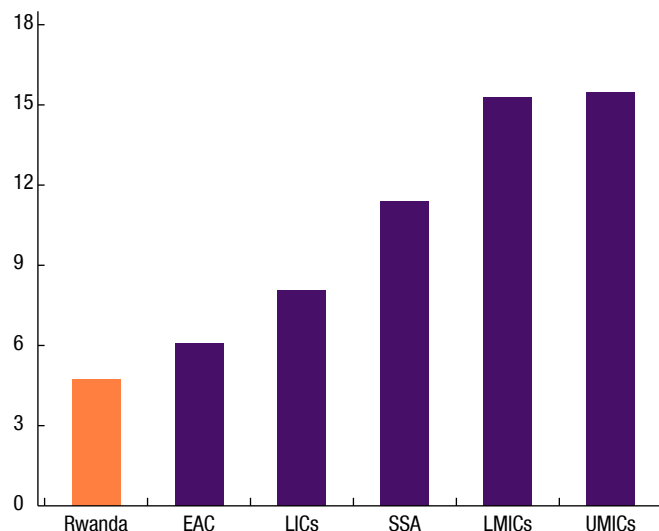
Despite impressive revenue generation in the last two decades, Rwanda's VAT and CIT performance has not caught up with peers.² VAT-Consumption efficiency and CIT productivity levels suggest that there is still ample potential to be realized. On both indicators Rwanda falls behind regional peers and similar income groups: Rwanda has a VAT C-efficiency ratio of 29 percent (Figure 42) and a CIT Productivity of 5 percent (Figure 43).

For the VAT, this largely reflects compliance problems. The RRA introduced Electronic Billing Machines (EBMs) in 2015. Despite the mandatory requirement to use EBMs and a lottery incentive scheme, compliance has remained low. This is largely due to a lack of information and price penalties imposed for consumer requesting receipts (Naritomi and Jensen 2018). An expansion of the lottery and information programs have been instituted to improve the compliance culture (Steenburgen and Javorick 2017). This is another good example of government's willingness to innovate, also evidenced by the ongoing discussions around a nationwide VAT rebate program.

Investment incentives have played a role in undermining CIT and VAT collection. The Rwandan Development Board was established in 2008 to help

²This is consistent with IMF (2018a).

Figure 43. CIT Productivity*
(Percent)



Sources: Authors' calculations; and IMF WEO Database.

*Tax yield in percent of GDP relative to the standard CIT rate.

facilitate new investment and accelerate development projects. Its efforts and those of its precursor (Rwanda Investment Promotion Agency, established in 1998) managed to increase private investment from 4.5 percent of GDP in 2000 to roughly 15 percent in 2019. In the investment code introduced in 2011 and revised in 2015, numerous (across-the-board) generous tax incentives were introduced that provide tax holidays or CIT reductions to those who invest in key sectors, have large volumes of exports, or employ a large number of workers.

The effectiveness of tax incentives is generally thought to be limited.³ Use of such incentives is controversial. For instance, while they can induce positive externalities—such as from knowledge transfers—by attracting foreign direct investment and offsetting high non-tax production costs, they can also contribute to revenue shortfalls both directly (in forgone tax revenue) and indirectly (through impacting broader taxpayer morale).⁴

³Fiscal incentives are defined as those special exclusions, exemptions, deductions, or credits that provide special credits a preferential tax treatment or deferral of tax liability. Tax incentives for foreign direct investment (FDI), are often structured through income tax systems, providing relief from corporate-level taxes on income from capital (for example, tax holidays, reduced corporate tax rates, special corporate tax deductions, allowances and credits), and in some cases providing relief from personal income tax (for example, imputation relief, preferential tax treatment for expatriates). They can also take the form of reduced import tariffs or customs duties.

⁴Empirical evidence on fiscal incentives and private sector involvement and growth is relatively sparse. Klemm and Van Perys (2009) for 40 Latin American, Caribbean, and African countries during 1985–2004

Rwanda's tax incentives undermine tax collection efforts and could be better targeted. Rwanda has tried to balance the pros and cons of tax incentives, and RRA has continued to quantify foregone tax revenues (hereafter "tax expenditures") which are comparable to peer countries. However, a study by the International Growth Centre (IGC) finds that Rwanda's tax incentives have limited effectiveness in inducing investment and job creation, with just 11 percent of the associated tax expenditures going to firms (3 percent of the total) whose investment decisions and profitability were likely to have been affected by the incentives (Steenbergen, von Uexkull, and Thum 2018). Rough estimates suggest that Rwanda's potential additional tax take could be 1–3 percentage points of GDP (Steenbergen, von Uexkull, and Thum 2018; IMF 2018). The IGC recommends that Rwanda's tax incentives should be more time-bound, transparent, and targeted, while others have recommended more coordination between the RDB and RRA to follow up on whether and how firms are benefiting from tax incentives. The IMF is providing technical assistance to develop a medium-term revenue strategy, which can serve as a centralized process to resolve competing institutional interests.

Conclusion

In sum, Rwanda has overall done well in raising tax revenues supporting its development strategy. This is the result of institution building and technical assistance from development partners, but also a consistent implementation of reforms as part of an agile policymaking process. While Rwanda's revenue performance has been strong over the past two decades, additional tax potential could be achieved by improving compliance and further streamlining investment incentives. However, it also must be recognized that Rwanda is a small, land-locked country with very high energy and transport costs. Striking a balance is important: ongoing evaluation of the costs and benefits of tax incentives will continue to be important. This requires a continued close exchange of information between RRA and RDB and improving the transparency and temporary nature of investment incentives. MINECOFIN is working on developing a Medium-Term Revenue Strategy, which can also serve as a roadmap for balancing competing interests.

report that lower corporate income tax rates and longer tax holidays are effective in attracting FDI, but not in boosting gross private fixed capital formation or growth.

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Transitioning from Development Assistance to Trade and Investment

The Rwandan authorities recognize the long-term challenge of sustaining high rates of investment and growth while reducing aid dependency. Successive export strategies have been formulated to support development objectives, with a focus on strategic investment in high-value added sectors; improving access to markets; and improving international competitiveness. Government interventions have also sought to reverse a slow deterioration in external trade and services balances. To reinforce external and fiscal sustainability, public interventions should pursue a multi-sectoral approach focusing support on sectors of comparative advantage and technological sophistication that integrate well into global value chains, including through maintaining careful management of public infrastructure investment and exchange rate flexibility. Strong planning and accountability frameworks have helped Rwanda navigate these challenges and will remain central to the implementation of Rwanda's successful economic development.

Introduction

“Trade and investment, and not aid, are pillars of development.”
—President Paul Kagame

Foreign aid has made an important contribution to financing Rwanda's development, as discussed briefly in Chapter 2. Rwanda's judicious use of official development assistance (ODA)—supported by a zero tolerance of corruption, a high degree of absorptive capacity, and intensive donor engagement—has supported Rwanda's receipt of one of the highest amounts of ODA among SSA LICs over the past decade (Figure 44).¹ While there is skepticism about the effectiveness of foreign aid, research at the IMF on SSA low-income

¹Rwanda's absorptive capacity has been aided by several factors, including donor-provided human capacity, the use of technical advisors, and donor-coordination framework and has been augmented by strong accountability and ownership structures—see Chapter 2, for a discussion of such factors.

Figure 44. Net ODA Received by SSA LICs
(Percent of GNI, 2010–2016 average)

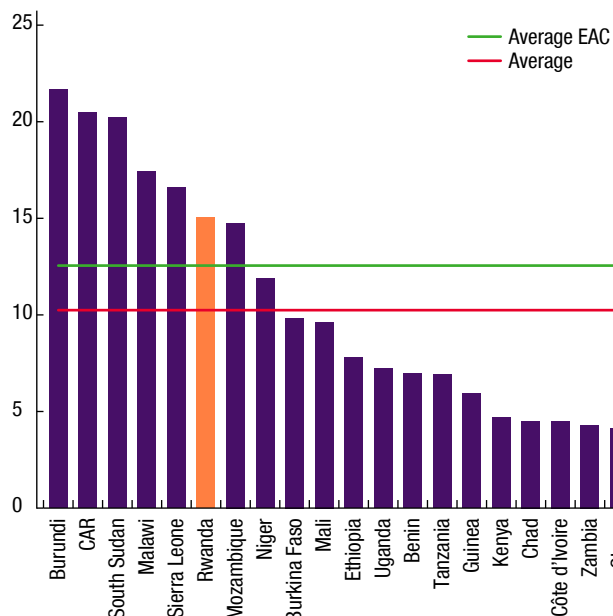
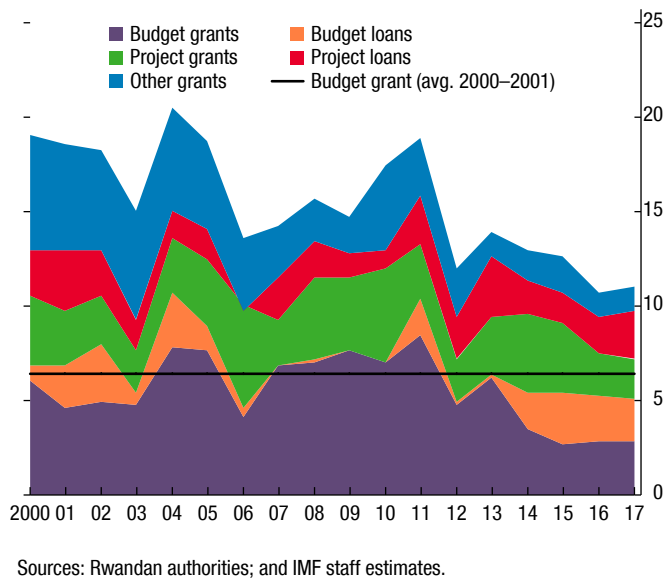


Figure 45. Rwanda Aid Flows, 2000–17
(Percent of GDP)



Source: World Development Indicators.

non-resource countries has shown that it has been a major driver of growth in these economies. In a growth regression for the six fastest non-resource growing countries in SSA during 1999–2010, the aid ratio was found to be highly significant and contributed ½ percent to per capita growth in Rwanda.²

Nevertheless, the envelope of available ODA is unlikely to remain as plentiful in the future. Indeed, ODA inflows have already declined in real terms from 17 percent of GDP in FY2005/6 to less than 10 percent in FY2019/20. This is largely because ODA has stayed relatively constant in absolute terms and has become a smaller share of Rwanda's fast-growing economy.³ At the same time, the composition of assistance has been shifting away from grants toward loans (Figure 45), owing to the IMF/World Bank joint assessment of debt sustainability as being at low risk. The downward trend of ODA creates an additional challenge for securing sufficient financing for strategic public investments and large import bills. Indeed, when a commodity price shock suppressed export receipts for minerals, which nearly halved in 2015 after

²IMF (2013).

³In FY2012/13, development partners withdrew ODA temporarily (in response to concerns about illicit natural resource flows), which adversely affected growth and underscored the importance of becoming less donor dependent.

accounting for about one-third of exports in 2014, pressure on international reserves increased. Additional financing combined with adjustment policies was needed to put fiscal and external sustainability on a firm footing.

The Rwandan government recognized the challenge of attempting to sustain high rates of investment while simultaneously reducing aid dependency to achieve their development ambitions. The result has been a redoubling of efforts to bolster domestic revenues (Chapter 4) and sustainable sources of external financing, while addressing persistent external deficits. The strategy emphasizes export diversity, more domestic production in key areas to supplant imports, and attracting foreign investment. It also focuses on expanding the pool of domestic savings and investment, not only to stimulate employment and growth but as a means of ensuring self-reliant development financing (Box 4).

To promote diversified exports in support of the development strategy, the government formulated successive National Export Strategies (NES). Developed by the Rwanda Development Board (RDB) and the Ministry for Trade and Commerce (MINICOM), the export strategies sought—in conjunction with Vision 2020—to focus on specific sectors as well as cross-cutting topics in order to “transform Rwanda into a globally competitive export economy.”

The NES analyzed Rwanda’s existing export sector and areas of comparative advantage, crafting strategic objectives to improve export performance. The NES also drew lessons from other countries’ experiences—for instance, identifying lessons of East Asia with government and the private sector working jointly to promote exports and investment. NES II (2015) recommended, for example, direct interventions in selected sectors with high export growth potential, measures to improve connecting Rwanda’s exports to high-potential markets, support to improve domestic firms’ capacity to compete in export markets, and creation of an export financing facility. Below, we document related efforts under three broad pillars: (1) strategic sectoral interventions, (2) improving access to markets, and (3) improving competitiveness.

Strategic Sectoral Interventions

To stimulate manufacturing exports, the government created very successful Special Economic Zones (SEZs). The SEZ program—supported by an SEZ law enacted in 2011—is designed to address private sector constraints, such as the availability of land, and provide reliable access to relevant infrastructure—including energy, water, sewage, and transport linkages—while also offering streamlined administration and customs procedures. As in other areas, the authorities have continued to hone their SEZ policy in

Box 4. Expanding the Pool of Domestic Savings and Investment

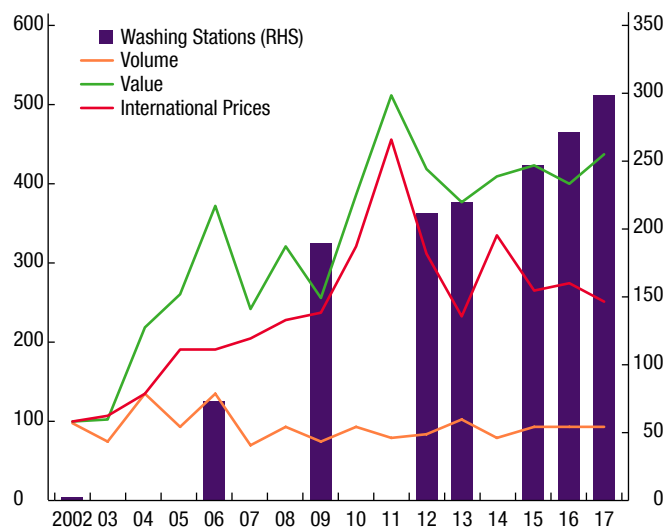
In 2012, there was an abrupt, albeit temporary, withdrawal of official development aid (ODA) in response to concerns about illicit natural resource flows in Rwanda and the region. The large drop in ODA had a significant adverse impact on growth and led to Rwanda taking more decisive steps to reduce its donor dependency. At the same time, despite notable gains in financial sector access, it became clear that the depth of the financial sector in Rwanda would become an obstacle to maintaining high growth and employment. A number of government initiatives ensued:

The Agaciro Development Fund (AGDF) was launched in 2012. *Agaciro* means “dignity.” AGDF is a sovereign wealth fund financed by voluntary contributions from Rwandan citizens, at home and abroad, to “achieve self-reliance, maintain stability in times of national economic shocks and accelerate Rwanda’s socio-economic development goals.” AGDF invests domestically and internationally, with a relatively conservative investment portfolio, which in recent years was broadened to increase returns. Its explicit purpose is to safeguard prosperity for future generations, by serving as a bulwark against economic shocks and improving the financial autonomy of the country. As of June 2018, the AGDF held RwF 50.7 billion (roughly US\$60 million) in assets.

Rwanda launched a 10-year financial sector development strategy in 2015. This was designed to bolster domestic savings, increase access to broader financial services, move to a cashless economy, develop a domestic capital market, and create skills to meet regional demand for niche financial services, including:

- **A government-sponsored long-term savings scheme (LTSS), launched in 2018.** The LTSS is designed to provide pension benefits to roughly half of the population not covered by existing schemes, and to bolster domestic savings to expand the pool of investment capital. It is based on voluntary contributions to a savings account, with the pension value based on collective investment returns. Depending on income, a limited government matching contribution and life insurance are available.
- **Expanding access to financial services, through financial technology and publicly sponsored risk-sharing schemes.** In particular, the government has sought to increase access to financial services, banking, insurance, for the agricultural sector through de-risking tools and electronic platforms.
- **Promotion of a cashless economy, to improve efficiency and improve tax compliance.** Electronic transactions, through permeation of mobile money have growth to about one-third of GDP in the past decade and digital financial services, such as consumer lending, are expanding rapidly.

Figure 46. Transformation of the Coffee Washing Sector
(Index, 2002 = 100)



Source: ???

line with external recommendations.⁴ The Kigali SEZ has been found to have helped toward the aims of strengthening Rwanda's industrial sector and diversifying exports, but without the implementation of SEZ specific tax incentives (Box 5).⁵ But, challenges exist—care is required to ensure that the desire to attract larger, foreign companies to Rwanda does not come at the expense of efforts to support the emergence of smaller domestic firms from the informal economy.

Existing sectors, such as tea, coffee, and mining activities have benefited from interventions aimed at increasing output and value added. In coffee production, a National Coffee Strategy was adopted in 2002, helping to increase the share of higher value-added coffee (that is coffee beans that are “fully washed”) from less than 1 percent in 2002, to 54 percent by 2017, supporting higher export values (Figure 46). In 2017, the authorities established the Rwanda Mines, Petroleum and Gas Board, to better monitor and coordinate mining activities in the country—and so raise recovery rates

⁴In the context of revising its SEZ policy, the Ministry of Industry and Trade (MINEACOM) commissioned an IGC analysis (Steenbergen and Javorick 2017), with the study's recommendations integrated into Rwanda's updated SEZ policy in 2017.

⁵An initial proposal for a flat 15 percent corporate income tax rate (instead of the normal 30 percent rate) was never implemented. Instead, a number of non-SEZ specific tax incentives have been offered by the authorities, although the proportion of SEZ firms receiving these incentives has been found to be considerably higher than for non-SEZ firms suggesting potential indirect benefits, including from greater awareness of specific tax incentives as a result of improved ties to government agencies.

Box 5. Kigali Special Economic Zones

In 2006, Rwanda launched the Kigali Industrial Park—aimed at domestic producers—and the Rwanda Free Trade Zone—offering specific tax incentives to stimulate exports, mainly to neighboring economies. Following accession to the East African Community (EAC) in 2007, with exports to neighboring EAC countries no longer qualifying for tax breaks, the two zones were merged into the Kigali Special Economic Zone (KSEZ). Subsequently, an extensive policy and regulatory framework for SEZs was developed and supported by the 2011 SEZ law, and the 2015 Investment Code offering tax incentives to investors in strategic sectors and exporters. The tax incentives are not specific to companies within the SEZ.

The KSEZ has been developed in two phases. Phase 1 (98 hectares) was completed in 2013 and is operating at full capacity with roughly 65 companies. Phase 2 is under way and was also (as of mid-2019) nearly fully booked, including with the newly established Kigali Innovation City focusing on information and communications technology. While the SEZs contain a mix of exporters and domestic producers, the exporting firms contribute a non-negligible share of exports and contributed significantly to export diversification, especially in the areas of textiles, processed foods, and light manufacturing. Recent large investors are assembling electric vehicles and mobile phones. New entrants have also focused on construction materials. Exporters have also benefited from the establishment of a nearby “dry port” which provides convenient facilities for storage, customs, and transportation.

Based on the success in Kigali, several new SEZs are under development throughout Rwanda, including with private sector participation in development.

for existing mineral production—as well as coordinate new investments, and support efforts to develop extraction and value-added of precious and semi-precious gemstones.

The authorities have also sought to establish new exports for new markets with a focus on areas of comparative advantage. As noted in Chapter 3, public investment has been directed at improving productivity and diversity in a number of sectors, starting with agriculture. The National Agricultural Export Development Board (NAEB) was established in 2011 with a mandate to develop exports of agricultural and livestock products and help diversify commodity export revenues. Recent interventions include the creation of the Gishali Flower Park in 2016: the business exported about 20 million roses to Europe in 2018. Other agricultural products have also benefited from strategic interventions seeking to exploit Rwanda's comparative advantages given its climatic conditions. For instance, production of avocados for export (a fruit well-suited to Rwanda's climatic conditions) are being supported by the distribution of export-grade Haas avocado and mango seedlings, and education programs to increase farmers' relevant skills, while stevia production has been similarly supported through facilitation in seedling development.⁶

Since 2015 the authorities have developed a Made in Rwanda policy. The policy has built on an existing Domestic Market Recapturing Strategy (DMRS) which sought to expand local content in domestic value chains. To support the DMRS, the government embarked on a Made in Rwanda (MIR) promotional campaign to encourage consumption of locally produced products. Over time, the MIR campaign has gradually expanded into a broad policy framework incentivizing the deepening of domestic supply chains and raising of domestic product quality in support structural transformation and development objectives. While such public interventions may not always be consistent with comparative advantages, they may help overcome key bottlenecks when used judiciously, although there are risks associated with crowding out of private industry. In Rwanda, policy measures and support to ease constraints have been focused in three carefully selected priority sectors, with targeted interventions made in several product markets:

- **Construction materials:** For instance, investments have been made in the part-publicly owned cement company (CIMERWA) increasing its production and its cement demand through MIR campaigns to overcome high costs—linked to transport—and ensure product quality.
- **Light manufacturing:** The domestic clothing industry is being supported through higher tariffs on second-hand clothing and reduced VAT on fabric/textile inputs. The Rwandan Center for Design and Clothing has also been established.

⁶Interventions for exports in the horticultural sector are also embedded within a national horticulture policy and strategic implementation plan, which in turn is informed by and consistent with development objectives.

- **Agricultural development:** Efforts have been made, with development partners, to reclaim marshlands and organize farmers into cooperatives to support rice production, while land allocated to the existing sugar producer has doubled (albeit not all usable due to flooding) and new foreign investors are being encouraged to enter the market.

Simultaneously, several other policy measures linked to MIR have been adopted and implemented. For instance, work has been undertaken to review the EAC Common External Tariff to support development of the priority sectors by favoring inputs and raw materials over finished goods; the Public Procurement Law has also been amended to provide preference to domestically produced goods; industrial electricity tariffs have been reduced; Community Processing Centers (CPCs) are being established to serve as sector specific SME incubators; and support has been offered to local food-processing firms to acquire international food quality standards. Risks around some of these interventions—in the form of fiscal costs or corruption—are mitigated somewhat by both careful selection and monitoring as well as the authorities zero-tolerance stance to corruption (Chapter 2). Nonetheless, interventions in the energy sector—to increase access to electricity and reduce costs of supply have been identified as posing potential fiscal challenges for the government.⁷

Rwanda's development strategy has placed significant importance in developing the services as a driver of growth. Reflecting this effort, strategic interventions have also been undertaken to raise services related income. With World Bank support, the RDB developed a Meetings, Incentives, Conferences and Events (MICE) strategy, and in 2014 established a dedicated Convention Bureau coordinating activity. Complementary public and private investments have also been made—including the completion of the US\$300 million Kigali Convention Centre in 2016, and opening of several new international hotels, such that by end-2016 Kigali had 3,400 upper- and mid-range hotel rooms. There has been substantial growth in MICE business tourism as a result with several high-profile conferences, including the African Union Summit and World Economic Forum Africa—by 2016 Rwanda was ranked as the third most-popular destination in Africa for such events, an improvement of 10 places in just two years.⁸

The MICE campaign fits within broader efforts to boost tourism revenues. Rwanda's attempts to boost tourism, as set out in a National Tourism Policy (2009), has been highly successful—with foreign inflows since 1999 exceeding those from traditional exports. Efforts have been made to improve tour-

⁷As a result, the World Bank has undertaken three recent energy sector development policy options with the aim of supporting the fiscal sustainability of the expansion of electricity services in Rwanda.

⁸Rankings compiled by the International Congress and Convention Association.

ism infrastructure and to promote tourism to Rwanda's four national parks (Volcanos, Nyungwe, Akagera, and Gishwati)—in 2015 the total number of visits to national parks were already 70 higher than 2008 levels, and the tourism sector is the country's largest foreign-exchange earner. To support such efforts, Rwanda also engaged in an aggressive marketing strategy—despite some reservations from the donor community regarding value-for-money—as it seeks to increase international visibility and brand recognition with a focus on high-end tourism, including through major marketing deals with Arsenal Football Club and Paris St-Germain. Recent efforts have also sought to boost regional medical tourism (Ggombe and Newfarmer 2017).

Improving Access to Markets

A central pillar of Vision 2020 was to improve regional and international integration. Given Rwanda's small market size—a population of just 12 million—and landlocked location, dedicated policy interventions have been needed to improve connectivity—supporting Rwandans to tap into broader markets so as to support development objectives.

The Rwandan authorities have shown commitment over time to integration into regional and global markets. Arguments can be made that, by increasing trade, trade liberalization can support economic growth (see Romer and Frankel [1999] and Dollar and Kraay [2004]). As noted in the previous chapter, Rwanda's tax revenues from international trade have declined over time. Rwanda removed export taxes in 1999. Rwanda joined the East African Community (EAC) in 2007 and implemented the common external tariff (CET) in July 2009. The CET simplified and reduced tariffs, particularly for capital and intermediate goods, with some evidence that the reduction in tariff rates on inputs used by exporters has helped raise exports (Frazer 2012). More recently Rwanda, under the President's chairmanship of the African Union, has been a strong advocate for the development African Continental Free Trade Area (AfCFTA).

Beyond reducing tariff barriers, integration efforts have been supported by a reduction in non-tariff barriers (NTBs) and broader efforts to deepen participation in regional and global value chains. Supported by the EAC's Monitoring Mechanism, 98 NTBs were eliminated across the EAC between 2008 and 2016.⁹ Rwanda has been at the forefront of those efforts—becoming the first member state in the EAC to develop and adopt a national strategy for the elimination of NTBs in 2011. By 2020, Rwanda has the lowest burden of customs procedures in the EAC. Given Rwanda's commitment and leadership in these areas, it is unsurprising that Rwanda has made the greatest strides

⁹MINEAC, Regional Integration Performance Report, p. 27.

amongst EAC countries in value-chain participation—one of the main objectives of the EAC and AfCFTA (de Melo and Twum 2020). But, progress toward greater regional integration has not always been smooth, with occasional disputes within the EAC—including border disputes due to security concerns among Burundi, Rwanda, and Uganda in recent years.

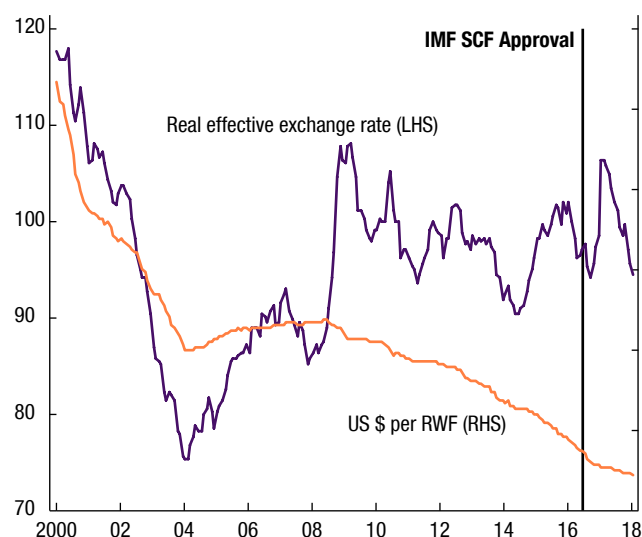
A key area for Rwanda's development strategy continues to be efforts to improve both internal and external connectivity of the Rwandan economy. As a land-locked economy, Rwanda faces relatively high import and export transport costs, with container export costs estimated to be around a third higher than the average for sub-Saharan Africa in 2014.

Public investment policy also aimed at reducing high transport costs and create infrastructure for tourism services. For instance, Rwanda has invested in the expansion of the national airline with new planes servicing intra-African routes, as well as long-haul routes to Europe (London, Brussels) and Asia (Mumbai, Guangzhou). That expansion has facilitated trade and tourism, with cargo revenues more than quadrupling between 2013 and 2017. While this expansion of RwandAir has incurred fiscal costs, it has improved profitability and operational transfers from the budget have been on a sharp downward trend. Qatar Airways acquiring a 49 percent stake in the company in early 2020, helping further reduce fiscal exposure. Work has also commenced on the construction of a new international airport at Bugesera to alleviate capacity constraints at the current international airport in Kigali, and plans are advancing to construct a standard gauge railway link to Dar es Salaam.¹⁰ Various road projects—including the Kivu Belt Road initiative—together with investment in a new large-scale inland cargo handling facility (dry-port) in Kigali have improved internal infrastructure, with the aim to also facilitate intra-regional trade such as along the Northern Corridor and along Rwanda's western border. Indeed, container turnaround and overall transport and storage costs have shown a significant decline since the dry-port's operations began.

In 2016 the authorities established an Export Growth Fund (EGF) to ease export financing constraints, especially for new exporters. The EGF is aimed at facilitating export-oriented SMEs to access finance by offering interest subsidies on investment loans, grants for market penetration and credit insurance guarantee to boost export volumes and access new markets and is being managed by the export department of the Development Bank of Rwanda (BRD).

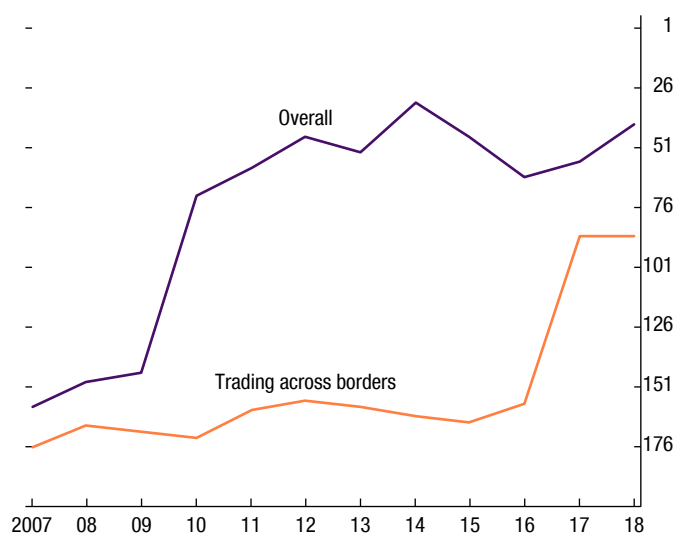
¹⁰The current airport was designed to handle 400,000 passengers per year. In 2016, it serviced 710,000 passengers, and has no space for further expansion. In a boost to the project and Rwanda's connectivity drive, Qatar Airways signed an agreement to take a 60 percent stake in the airport in December 2019 noting the benefits of offering an efficient hub in a stable country in the heart of Africa.

Figure 47. Exchange Rate
(Index, 2015 = 100)



Source: Rwandan authorities; and IMF staff estimates.

Figure 48. Rwanda's Rank in Doing Business Index
(Ranking, 1st–190th)



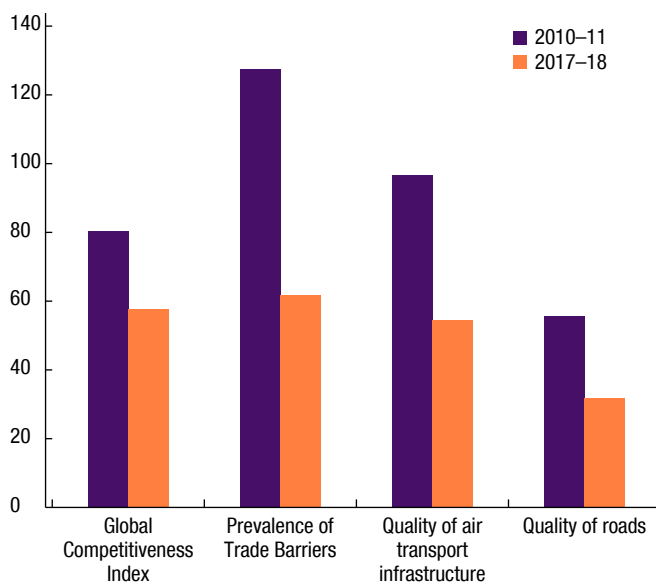
Source: 2018 Doing Business Report.

Improving International Competitiveness

The NES recognized the importance of the real exchange rate for export performance—and to spur private sector led growth. Rwanda's recent IMF adjustment program was centered on ensuring exchange rate flexibility. In 2015, the consumer price index (CPI)-based real effective exchange rate appreciated by about 8 percent—reversing the gradual depreciation observed during 2010–14. In the context of a deteriorating external position, the Rwandan franc was assessed to be modestly overvalued. Tighter fiscal and monetary policies, together with greater exchange rate flexibility were required to dampen external imbalances and ease strains on foreign reserves. Since the start of 2016, the Rwandan franc has depreciated by about 15 percent against the US dollar, and by about 12 percent in real effective terms (Figure 47), bringing the exchange rate broadly in line with fundamentals (IMF 2017b).

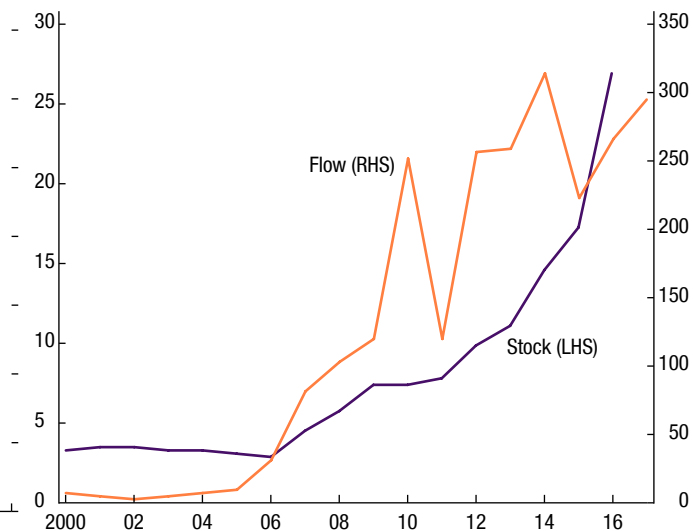
Rwanda performs well under broad indicators of international competitiveness. Rwanda has improved from 158th place to 41st place in the World Bank *Doing Business Report* since 2007, with significant improvements after the establishment of the Rwanda Development Board in 2009 (Figure 48)—set up to bring together all government agencies responsible for investor relations under one roof (Box 6). Rwanda's comparative position in trade across borders has also improved over the past couple of years, driven by efforts to

Figure 49. Rwanda's Rank in WEF Global Competitiveness Index



Source: World Economic Forum, 2018 Global Competitiveness Index.

Figure 50. Rwanda FDI
(LHS: Percent of GDP, RHS: US Dollar millions)



Source: Rwandan authorities; and IMF staff estimates.

reduce the cost and time to trade. Rwanda's position under the World Economic Forum's Global Competitiveness Index (CGI) has also improved, with an overall rank of 58 for 2017–18—third best for a sub-Saharan African country after Mauritius and South Africa. This represents an improvement of 22 places over the past 6 years, with notable improvements in reducing the prevalence of trade barriers and transport infrastructure (Figure 49).¹¹

Strong institutions, political stability, security, and efforts to improve the business climate have also supported the attraction of greater foreign direct investment (Figure 50)—helping somewhat to ease financing constraints. Over the past 10 years, efforts made to improve the investment environment have reduced the number of days required to register a business from 16 to just 4 days, supported by the RDB. There is also tentative evidence that the RDB's aftercare services are positively related to firm investment, employment and sales (Akkurt and Steenbergen 2018). At the same time, Rwanda has gained recognition as a center of excellence in soft infrastructure and governance, with a reputation for low corruption—ranked 48th globally, and fourth in the SSA on Transparency International's Corruption Perceptions Index, with a better score on the index than some OECD countries. The

¹¹In 2016, the largest sectors for foreign direct investment inflows and stocks were the information and communications technology, finance and insurance, and manufacturing sectors.

Box 6. Rwanda Development Board

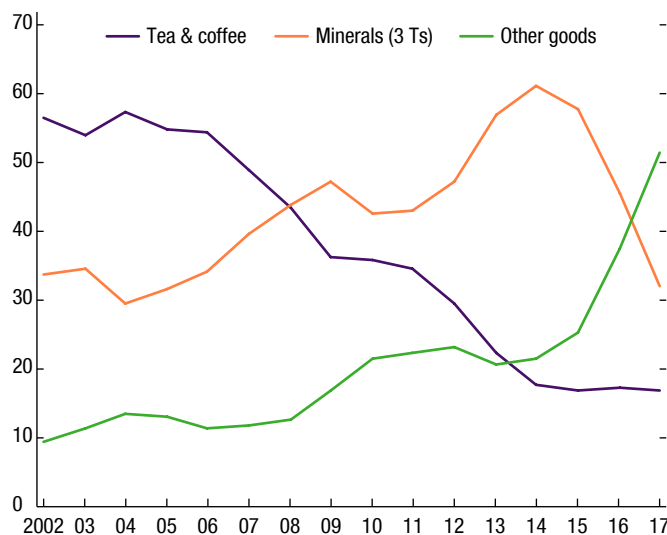
The Rwanda Development Board (RDB) was established in 2009 to eliminate inefficiencies and streamline bureaucracy to support private sector development initiatives, leading the government's efforts to accelerate Rwanda's strategic growth and development.¹

The RDB reports directly to the President and is guided by a Board that includes several key Ministers, including Finance, Commerce, Infrastructure and Agriculture. The RDB is modelled on international best practice examples of Costa Rica and Singapore and has benefited from support from experts including from the Singapore Development Board, World Bank, International Finance Corporation, and the Office of Tony Blair.

The RDB is responsible for facilitating private sector investment. The RDB does this through procedures to fast track investment projects, registration, and business approvals. For instance, new investors can register online at the RDB's website and receive a certificate within one business day, while the agency's "one-stop shop" helps investors secure required approvals, certificates, and work permits. To support long-term investment performance, the RDB also provides investors with a range of aftercare services including provision of information, assistance and access to dispute resolution, and advocacy services (Akkurt and Steenbergen 2018). The RDB also oversees strategies more broadly promoting export activities and tourism (business and personal).

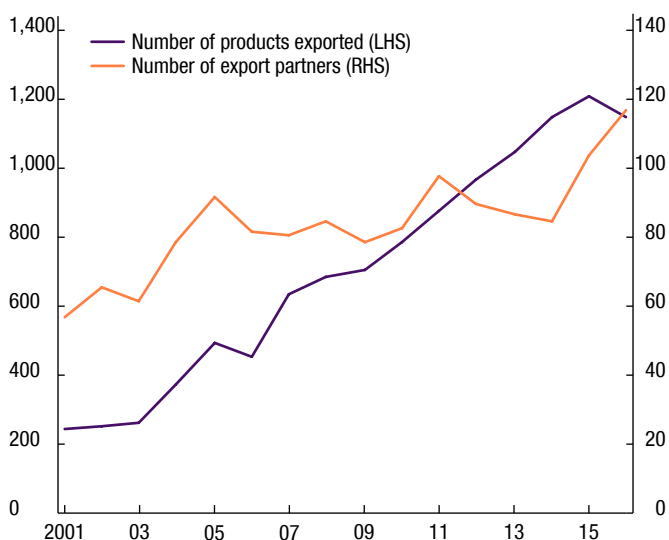
¹The RDB incorporated elements of eight government agencies: Rwanda Investment and Export Promotion Agency (RIEPA); Rwanda Office of Tourism and National Parks (ORTPN); Privatization Secretariat; Rwanda Commercial Registration Services Agency; Rwanda Information and Technology Authority (RITA); Center for Support to Small and Medium Enterprises (CAPMER); Human Resource and Institutional Capacity Development Agency (HIDA); and the Environmental Impact Assessment Division of the Rwanda Environmental Management Authority (REMA).

Figure 51. Export Diversification
(Percent)



Sources: Rwandan authorities; and IMF staff estimates.

Figure 52. Product and Market Diversification



Source: UN Comtrade.

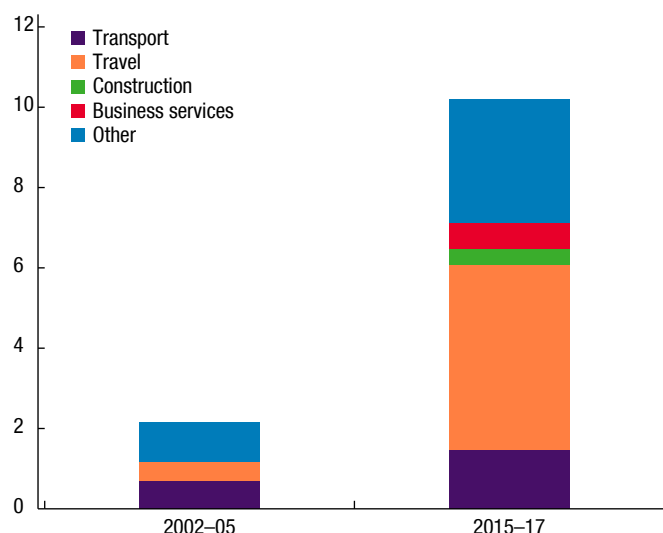
authorities' strong stance on corruption, supported by individual accountability through *imihigo*, has allowed Rwanda to choose strategic interventions carefully, while maximizing the economic benefits. As noted in Chapter 4, the 2015 Investment Code offered various generous tax incentives to attract foreign investment.

Improving Export Outcomes

Rwanda's export performance has been impressive. Goods export growth has averaged more than 20 percent per annum over the past 15 years, while services export growth has been closer to 25 percent. In line with the NES' priorities, there has been a diversification of exports—less reliance on traditional exports of tea, coffee, and 3Ts (tin, tantalum, and tungsten) (Figure 51)—with an increasing number of products exported to an increasing number of product markets (Figure 52). Within services, much of the increase in exports has been driven by growth in travel-related services (Figure 53).

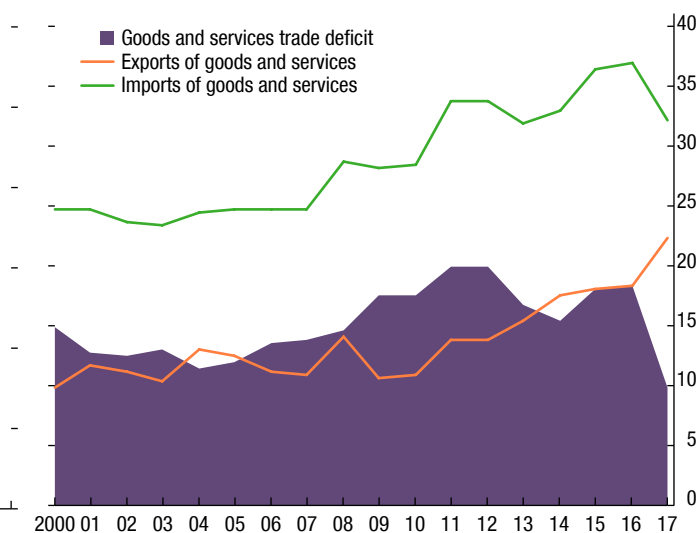
In turn, Rwanda's trade balance has been improving. Strong export growth combined with weaker import growth following the completion of some large projects (including the Kigali Convention Centre and hotels) has supported a sharp narrowing in the trade deficit (Figure 54). Those trends helped to narrow the current account deficit from 14.9 percent of GDP in 2016 to

Figure 53. Services Exports
(Percent of GDP)



Sources: Rwandan authorities; and IMF staff estimates.

Figure 54. Goods and Services Trade
(Percent of GDP)



Sources: Rwandan authorities; and IMF staff estimates.

6.8 percent in 2017 and have supported the faster than anticipated accumulation of foreign exchange reserves (IMF 2018b).

Conclusion

Declining ODA has helped to spur efforts to improve the sustainability of Rwanda's external balances while at the same time supporting progress to achieve development ambitions. Those efforts have been supported through institution building—such as the RDB—and policy efforts both at the macroeconomic level (with exchange rate flexibility) and micro level supported by strategic public investments and infrastructure projects (including SEZs).

Ensuring the consistency of these efforts with overall development objectives has been embedded within successive export strategies and supporting policies such as Made in Rwanda. Such strategic planning, combined with a focus on exports and Rwanda's strong accountability and governance frameworks, incorporates many of the important lessons from the Asian miracle's industrial policies, and have helped ensure that project and intervention selection has largely remained focused on long-term development needs—avoiding many costly long-term commitments to poorly chosen projects.

There are inevitable risks associated with widespread and sometimes significant public interventions—for instance, the returns on commercial links

with European football clubs are difficult to judge directly despite positioning Rwanda as a brand to a potentially wide audience, similarly, the return on investment in the Kigali arena is uncertain given the limited purchasing power of the domestic population.

Moreover, it is unclear that the current sectoral focus of interventions can deliver the lofty ambition of not only eradicating poverty but achieving high-income status within a generation. In Rwanda, policies have focused on producing goods and services around existing industries (tourism and agriculture), moving up the quality ladder, and some venturing into other sectors beyond existing sectors of comparative advantage (within SEZs and services). In comparison, one of the key ingredients of the Asian miracle' policies was the incorporation of a moonshot approach—pushing interventions into technologically sophisticated sectors significantly beyond existing areas of comparative advantage.¹²

Furthermore, progress in terms of improving access to international markets and competitiveness—in particular, exchange rate flexibility and improving skill levels—will need to be sustained and continue to deliver results. As noted in Chapter 2, however, there may be challenges in sustaining a services-led development approach, requiring continued adaptation and monitoring of results.

Gender Inclusion to Promote Growth

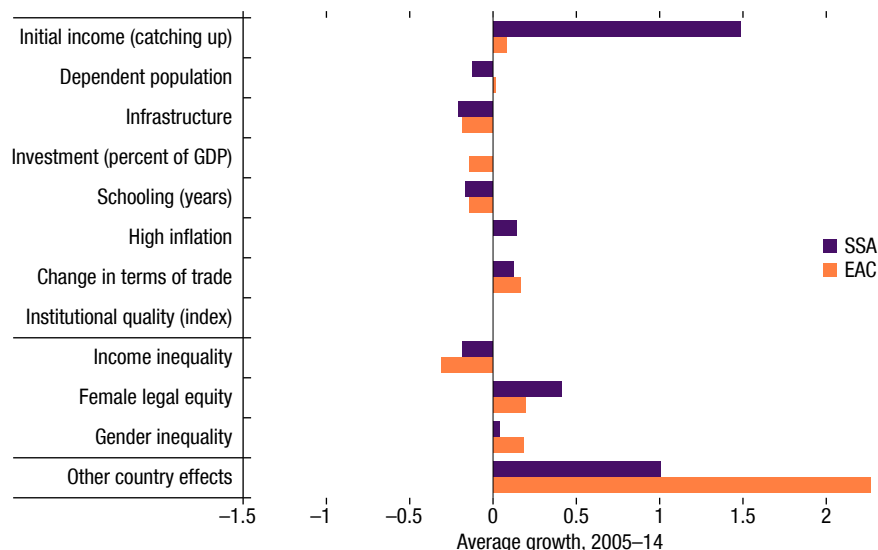
Rwanda has been proactive with initiatives that substantially reduce gender gaps, emerging as a global leader in gender equality. Harnessing this potential has created visible gains for growth and in meeting development goals, has the potential to do even more for the Rwandan economy, and serves as a best-practice example for many governments that aim to equalize opportunities for men and women.

Introduction

Greater gender inclusion in Rwanda has had a significant positive impact on economic growth (IMF 2015). Cross-country empirical analysis exploring differences in average real GDP per capita growth rates yields striking results: Rwanda's real GDP per capita has grown on average 2.2 percentage more rapidly than the average EAC or sub-Saharan African country during 2005–14. Though causality is always hard to establish in an empirical context, the data from a global sample of countries over time suggest that female legal equity and gender equality in opportunities and the labor market have contributed ½ percentage points to this growth differential—explaining almost one-fourth of why growth in Rwanda was ahead of its peers (Figure 55; IMF 2015).

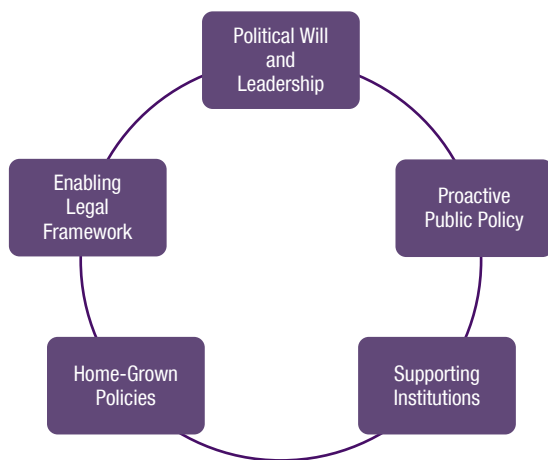
These results came about as a result of successful policy interventions and reinforce Rwanda's position as a global leader in promoting gender equality. Rwanda's advances in gender equality emerged, in part, as a necessary component to rebuild the country, in the aftermath of the 1994 genocide against the Tutsi, in which a disproportionate number of men were killed. Women then started taking on new roles as heads of households, economic actors, and as social and government leaders, and many talented and educated women returned to the country from the diaspora. Since then, Rwanda has progressively recognized and operationalized gender equality as an

Figure 55. Rwanda: Growth Differential with EAC and Sub-Saharan Africa
(Percentage points)



Sources: IMF, World Economic Outlook database; PRS Group; World Bank, *World Development Indicators*; and IMF staff estimates.
Note: Estimates based on Generalized Method of Moments estimates in IMF (2015); as in the original paper, the specific contributions for Rwanda are calculated in this paper based on average growth contributions of variables obtained from the regression framework, and then compared to the contributions in sub-Saharan Africa and the EAC. For detailed methodology of calculation, please see IMF (2015).

Figure 56. Pillars to Support Gender Equality in Rwanda



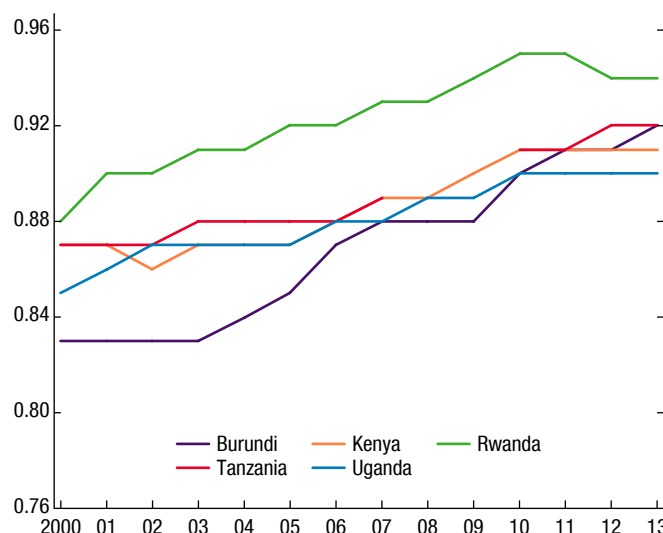
Source: ???

integral component of its development agenda (Figure 56).

Gender equality has been mainstreamed in all areas of government operations, and there are ongoing initiatives to enhance economic opportunities for women. Pillars to support equality have been an enabling legal framework, supporting institutions, and home-grown solutions. A dedicated “gender

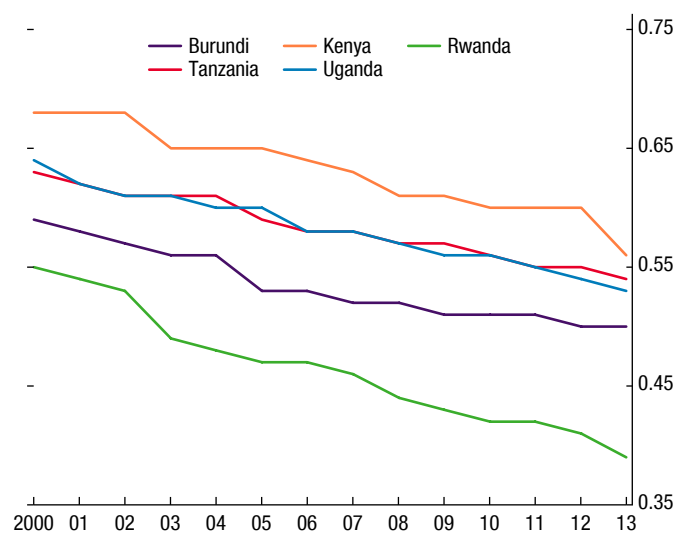
machinery” —consisting of the Ministry of Gender and Family Promotion, the Gender Monitoring Office, the National Women Council, and the Forum for Women Parliamentarians—operationalizes gender policy and

Figure 57. UN Gender Development Index, 2000–13
(Higher values, less inequality)



Source: UNDP, *Africa Human Development Report 2016*.

Figure 58. UN Gender Inequality Index, 2000–13
(Higher values, greater inequality)



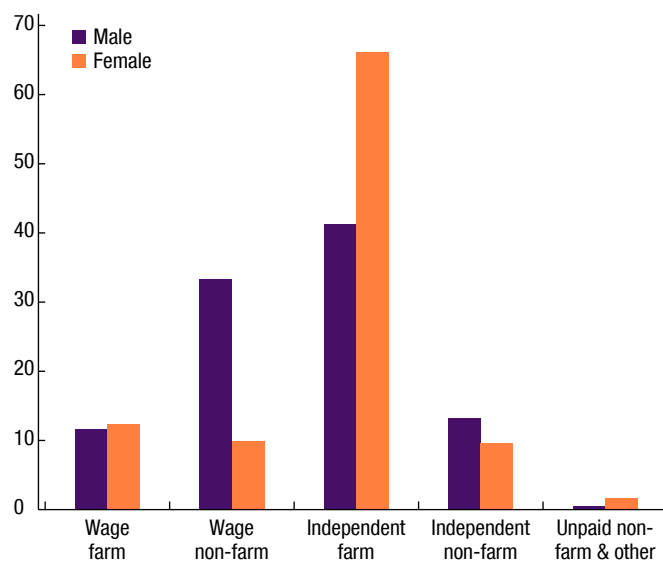
Source: UNDP, *Africa Human Development Report 2016*.

legislation and ensures implementation and accountability. The provision of gender-disaggregated data has increased significantly (NISR 2016), providing the foundation for identifying gaps and monitoring results. Gender issues are advocated at the highest level, including the president, who advocates for gender equality globally in the “He” for “She” initiative. Innovative programs, such as the Ms. Geek competition and Rwanda’s K-Lab, promote young female entrepreneurs in information technology.

These initiatives have been accompanied by improving indicators of gender equality. Gender inequality has declined rapidly over the past two decades, both measured by the United Nations Gender Development Index and the United Nations Gender Inequality Index (Figures 57 and 58). As a result, the World Economic Forum’s 2020 Gender Gap Index ranks Rwanda as the best performer in sub-Saharan Africa, and the ninth best performer *globally*.¹

¹The Gender Gap Index benchmarks national gender gaps on economic, education, health, and political criteria, ranking countries that allow for comparisons across regions and income groups.

Figure 59. Employment by Type of Job Type
(Percent)



Source: National Institute for Statistics Rwanda EICV 5 2016/17.

Benchmarking Gender Equality in Rwanda

Economic Participation²

Rwanda outperforms most of its peers in terms of women's economic participation. The World Economic Forum *2020 Gender Gap Report* ranks Rwanda at number 79 globally on women's economic participation and opportunity, but within this category is ranked top in labor force participation and 13 in labor wage equality for similar work.

Female labor participation rates in Rwanda are virtually equal to that of men but differ across sectors. The share of females participating in the labor force is similar to that of men (see for example, the 2016/17 Integrated Household Living Conditions Survey, which reports that the share of working females was even higher than that of males). However, most of working women are in agriculture-related occupations, mostly as independent farmers, compared to about two-fifths of men (Figure 59)—similar to many sub-Saharan African countries and LICs (World Bank 2011). With the share of employment in agricultural sector tending to decrease with higher education levels,

²Economic participation and opportunity measures differences between females and males in terms of labor force participation, wage equality, estimated earned income, as well as numbers of legislators, senior officials and managers, and professional and technical workers.

improved access to quality education, combined with other measures (for example, changing social norms regarding household and care responsibilities), improvements in these areas could help women move from agricultural employment parallel to men.

Rwanda is closing the gender gap in wages and earnings but ranks less favorably in estimated earned income. The latter may reflect the fact that women are underrepresented in the non-farm wage sector, among professional and technical workers (where the female-to-male ratio is just above 6 in 10 according to the *2020 Global Gender Gap Report*), but overrepresented in independent agriculture (Gender Monitoring Office 2017b). In particular, they are often involved in lower-valued subsistence agriculture, while men are more involved in cash crop production and marketing. This is consistent with the findings in many sub-Saharan African countries, where gender pay gaps are generally associated with the high share of female employment in agriculture and informal sectors, the time women spend on unpaid household work and care, high fertility rates, and discriminatory social norms (UN 2016).

Equal Opportunities

Education

The Rwandan government has implemented specific policies to improve education opportunities for girls (Government of Rwanda 2016: National Gender Statistics). These include, led by the Ministry of Education, the *Girls' Education Policy*, which specifically aims at the progressive elimination of gender disparities in education and training as well as in management structures (Government of Rwanda 2008: Girls' Education Policy), and the universal 12-year basic education and *Technical Vocational Education Training (TVET)* programs which also have specific goals and measures to reduce gender imbalance in access and enrollment.³ In 2014, net enrollment of girls in primary school nearly equaled that of boys and, in 2015, girls' attendance exceeded that of boys at the primary and secondary level. Information and communications technology have supported the process of closing the gender gap, for example, through e-learning systems, and Rwanda is also a signatory of the 2017 *Kigali Declaration* which targets a closing of the gender gap in science and technology. However, a gender gap remains in technical and vocational education and training, with female enrollment at nearly 42 percent in 2015. Although a significant increase from past enrollment, it is some

³Rwanda's TVET policy provides for special programs to "enable women to update their knowledge and professional skills for entering the workforce, executing income generating activities or occupying better position" (Government of Rwanda 2014).

16 percentage points lower than male enrollment. Additionally, only about four women are enrolled for each five men in postsecondary education.

As a result of these efforts, Rwanda outperforms the average sub-Saharan African country on educational equality.⁴ Literacy rates among women were above 69 percent in 2015, up more than 20 percentage points from 2000 levels, and compared to about 84 percent for men and 64 percent for the average sub-Saharan African adult in 2016. Rwanda performs strongly with respect to youth literacy rates (more than 88 percent for females compared to just above 84 percent for males in 2016/17), and access and completion of primary education is virtually the same for boys and girls.

Health

Government interventions have improved health indicators for and relating to women. Maternal mortality has been reduced sharply, from more than 1,000 deaths per 100,000 births in 2000 to 210 in 2015, better than the sub-Saharan Africa average and EAC peers. Adolescent fertility (births per 1,000 women aged 15–19) have been halved from 49 in 2000 to 26 percent in 2015 (compared to 100 in sub-Saharan Africa). One of the keys to this success has been the aforementioned community-based health insurance scheme (*Mutuelle de Santé*), that has helped to provide quality health care to the poor, especially women, at affordable rates (Box 3). In addition, other, home-grown, solutions have improved the health of women and children in Rwanda. The community health workers (*abajyanamab'ubuzima*) program educates pregnant women and promotes healthy behaviors and follow-up to health services. Kitchen gardens (*akarimak'igikoni*) help fight malnutrition and under-nutrition, while families can sell excess production. Community kitchens to demonstrate the preparation of a balanced diet, and the *Shisha Kibondo* program (where pregnant and lactating mothers and children receive fortified blended food supplements) help improve health outcomes, in particular for mothers.

Public Interventions Supporting Gender Inclusion

Public Policy Framework

Gender equality is not a separate issue in Rwanda's policymaking: it feeds through all the main policy areas and strategies. The *National Gender Policy* is the guiding framework for public policy choices for promoting gender equal-

⁴See Fifth Integrated Household Living Conditions Survey (2016/17), National Institute for Statistics Rwanda.

ity in Rwanda. The policy outlines principal guidelines on which sectoral policies and programs are based “to integrate gender issues in their respective social, cultural, economic and political planning and programming” (Government of Rwanda 2010). Importantly, this policy ensures that other programs treat the promotion of gender equality as a cross-cutting issue.

The government’s development frameworks inform and operationalize the National Gender policy. Both the government’s medium- and long-term strategy mainstream gender equality and women’s empowerment as a cross-cutting issue. *Vision 2050*—the government’s long-term plan that aims to achieve upper-middle-income status by 2035—recognizes equity, including gender equality, as a core value. The *National Transformation Strategies (NTS)* that are aligned with the 7-year presidential mandate recognizes gender as a cross-cutting issue and emphasizes that gender mainstreaming, family promotion and women’s empowerment will be sustained through facilitation of access to finance for women, mainstreaming gender in job creation policies, strengthening institutions promoting gender equality, improving data collection, and building awareness and fighting gender-based violence and human trafficking.

At an operational level, gender budgeting has emerged as one of Rwanda’s key policy tools. Gender budgeting—using the fiscal budget as a policy tool to promote gender equality, and girls’ and women’s development—helps to evaluate how fiscal policies may affect men and women differently. Rwanda’s gender budgeting initiative started in the early 2000s and has since evolved to be an integral part of the budgeting process (Box 7).

Rwanda’s social protection programs also have an important role in tackling gender inequalities. The overall objective of the Rwandan authorities’ social protection strategy has been to build a system that reduces poverty and inequality and vulnerability from shocks, including with involvement from the local community. Evidence from countries with well-established safety net programs reveals that effective and properly targeted social safety nets can play a powerful role in combating poverty and inequality. In Rwanda, as in most countries, female-headed households are more likely to be poor than male-headed households (44 percent versus 37 percent) and more likely to be extremely poor (20 percent versus 15 percent). In the Rwandan context, poorer households are identified and benefit from well-targeted and comprehensive transfer schemes (see the Vision 2020 *Umurenge* Program discussed in Chapter 1).

The Constitution provides the foundation for Rwanda’s progress in promoting political inclusion of women. It requires a minimum share of at least 30 percent for women in *all* decision-making positions, resulting in a greater proportion of women holding decision-making positions at all levels. For

Box 7. Gender Budgeting in Rwanda

Rwanda has been implementing a gender budgeting framework since 2002. The Ministry of Gender and Family Promotion implemented the first gender budgeting initiative in 2002 as part of a broader gender mainstreaming program supported by Department for International Development (DFID), building on the Medium-Term Expenditure Framework (MTEF) being introduced at that time, with close collaboration from the Ministry of Finance and Economic Planning (MINECOFIN). The government chose five ministries as pilots, where officials received training followed by hands-on assistance. Each ministry was required to analyze the six largest budget expenditures and develop a budget statement with specific gender targets. After this experience, to build local capacity, MINECOFIN took the lead of the process, with less reliance on outside experts.

The current process, launched in 2008, was part of reforms to move Rwanda's budget planning process from an "accounting" to a "program budgeting" exercise. The budgeting exercise means that every ministry is responsible for ensuring that women's needs are integrated into its areas of responsibility and budget request. MINECOFIN takes the lead in directing the process and ensuring accountability, while the Ministry of Gender and Family Promotion and the Gender Monitoring Office are responsible for oversight and support. The 2010 National Gender Policy imbeds gender budgeting as a necessary condition for the success of its implementation. An Organic Law on State Finances and Property, enacted in 2013, institutionalized gender budgeting as part of the government's budgeting framework, including accountability measures for gender-sensitive resource allocation across sectors, programs and projects through mandatory Gender Budget Statements.

Rwanda's experience with gender budgeting is considered a success, underpinned by several factors. First, MINECOFIN's leadership role and its role in defining the annual targets ensure emphasis and visibility on gender issues in the annual and multi-year budgetary processes. Second, the discretion offered to line ministries and government agencies helps them to consider their relevant gaps and effective ways to address them in the annual budget. The line ministries are expected to report on their achievements at the end of each fiscal year. Lastly, the establishment of the Gender Monitoring Office, which ensures that gender budgeting is operationalized as intended, helped strengthen the monitoring and accountability framework.

example, in 2018, when the sub-Saharan African share of seats by women held in national parliaments was, on average, 24 percent, women held 61 percent of seats in Rwanda. Women also comprise more than 47 percent of ministerial positions. In 2018, women accounted for 32 percent of Senators, 50 percent of judges and held more than 43 percent of city and district council seats.

Institutional Framework

Rwanda's legal framework provides for equal treatment of women and lays out concrete goals for achieving this. The 2003 Constitution, as revised in 2015, enshrines the fundamental principles of gender equality and provides a platform for gender mainstreaming in all sectors. It sets out to operationalize these principles by establishing 30 percent quotas for female representation in all decision-making structures. Within this set-up, a number of institutions ensure equality of treatment is operationalized, including:

- The **Ministry for Gender and Family Promotion** is the central government institution mandated to ensure strategic coordination of policy implementation of gender, family, women's empowerment, and children's issues. It plays a leading role in implementing the gender agenda. Within this mandate, the Ministry, for example, promotes programs for women's economic and political empowerment by targeting girl's education in science and technology and Technical and Vocational Training (TVET), increasing women's access to finance.
- The **Gender Monitoring Office's** mandate is to monitor gender mainstreaming and trends in gender-based violence in public, private, civil society, and religious institutions. Here, the coordination with the Rwanda National Institute of Statistics that has increased its provision of gender-disaggregated statistics, including through a number of thematic reports, is critical.
- The **National Women's Council** represents the interests of women at all levels of government, disseminates information on laws, policies, and programs to promote gender equality, and builds capacity for gender advocacy. At the local government level, women's representation is now 43 percent, up from 24 percent before the 2006 election.
- The **Forum for Rwandan Women Parliamentarian** oversees and advocates for the enactment of gender sensitive laws.
- The **National Gender Cluster** is a forum wherein the Government of Rwanda, development partners, private sector, and civil society meet and discuss planning, coordination, and prioritization of gender policies.

Gender issues are mainstreamed throughout other institutions and tiers of government. At the central government level, there are “gender desks” or “gender focal points” within each entity. At the local government level, “gender and family promotion” officers champion gender issues.

Legal Framework

More recently, Rwanda has introduced more comprehensive laws removing impediments to women’s access to physical assets and correcting legally inscribed discrimination. These laws, among other things, grant women equal access to own land, equalize inheritance rights, earn equal pay, and provide maternity leave, as well institutionalize gender budgeting (Box 8).⁵

The changes in laws have resulted in a more level playing field. Women are now more likely to own property and provide loan collateral than women in neighboring countries (UN 2016), thereby enhancing their productive and financial access capabilities. The 2016/17 household survey showed minimal differences in land ownership between male-headed and female-headed households (82 percent and 80 percent, respectively). A more equal distribution of property has allowed women to hold more assets that can be used as collateral, therefore advancing financial inclusion.

Financial Access

The Rwandan government has put in place several initiatives to promote more equal access to financial services, especially targeting women and youth. The government’s Financial Sector Development Strategy aims to increase overall financial inclusion among the Rwandan population to 80 percent by 2017 (already achieved) and to 90 percent by 2020, with a special emphasis on women and youth. Numerous government programs have been established, for example, the Women’s Guarantee Fund, and Access to Finance Strategy for Women and Youth programs, which both provide significant guarantees aimed to increase women’s access to loans and micro credit.

Financial sector access for women has increased significant as a result. Between 2012 and 2016, gender-focused public interventions increased the share of women served by formal financial services by 27 percentage points, while the share of women relying exclusively on informal mechanisms for financing their activities decreased by 25 percentage points (FinScope 2016; Figure 60).

Despite these gains, a gender gap in financial services access remains (Gender Monitoring Office 2017a; FinScope 2016; Figure 61; Table 3). Although a

Box 8. Rwanda: Selected Recent Legal Changes

Rwanda in the recent past has passed a range of laws that provide a more level economic playing field for men and women, including:

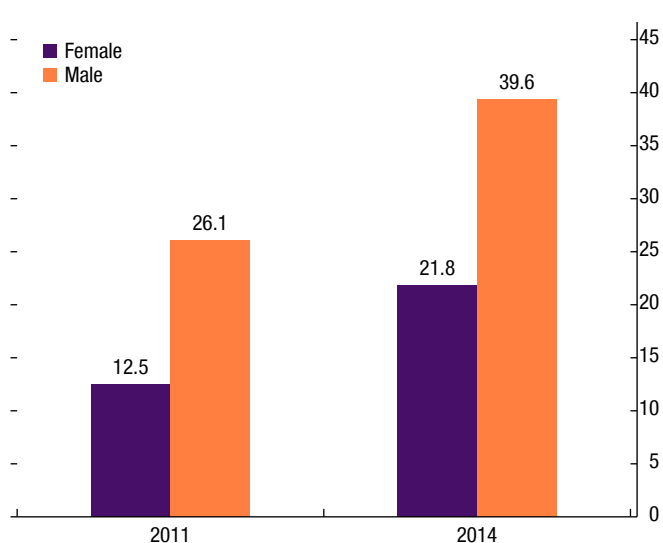
- ***Promoting an equal work environment.*** In 2009, Rwanda passed a law to promote equal opportunities and equal pay for women and men, and to prohibit sexual harassment in, the workplace.
- ***Property rights.*** A 2013 law levels the playing field in land management and provides equal rights on land access, ownership and utilization (2013). Currently 26 percent of land is owned by women, 18 percent is owned by men, and 54 percent is owned jointly by spouses. With women now being able to use land as an economic resource to secure loans and run businesses, their financial exclusion has halved.
- ***Discrimination.*** Also passed in 2013 is a law that prohibits the discrimination based on gender, sex, race, and religion in political parties.
- ***Gender responsive budgeting*** (2013). The law introduces accountability measures for gender sensitive resource allocation across sectors.
- ***Inheritance rights.*** The law grants equal rights for inheritance within matrimonial regimes, donations granted or received within a family and successions. It was passed in 2016.
- ***Maternity leave benefits*** (2016), allowing a mother to take 3 months fully paid maternity leave, up to one hour out of official working hours for a period of 12 months to spend time with her child, and four days additional leave for fathers during the wife's maternity leave.

Figure 60. Rwanda: Women's Access to Financial Services (Percent)



Source: FinScope (2016).

Figure 61. Rwanda: Individuals (18+) with Access to Savings Facilities (Percent)



Source: Household survey, EICV 3 and EICV 4.

roughly equal share of men and women are engaged in saving, men are much more likely to save using formal mechanisms. Similarly, about 60 percent of women rely on informal sources of borrowing, because of lower collateral requirements. Formal sources have been more difficult to access, because their ability to own land was historically limited (Gender Monitoring Office 2017a). Strikingly, while women constitute the majority share of agricultural workers, almost three-quarters of agricultural credit was extended to men in 2015 (Gender Monitoring Office 2017a). 39 percent of microfinance accounts are held by women. Recent initiatives by the authorities to collect sex-disaggregated financial data will help in further understanding the gender dimensions of access to financial services, which should help in designing targeted policies.

The government itself recognizes the journey to equality has not yet ended: progress will continue to depend on changing socioeconomic and cultural norms. Gender gaps remain in all areas. For instance, as mentioned earlier, despite virtually no difference in overall male and female labor force participation rates, women are still disproportionately represented in agriculture, a sector with lower value-added activity. Gender relations are often deeply rooted in a society's economic and cultural norms and practices, which in turn shape women's economic opportunities (for example, type of education and nature of jobs that a man/woman can do) and/or how endowments are distributed between men and women. This results in women being employed

Table 3. Rwanda: Composition of Client Accounts

Sector (percent)	2012	2015	2016
Banking	56.2	45.7	42.6
Microfinance	43.8	54.3	57.4
o/w Females	39.5	38.7	39.3
Males	54.2	52.4	52.3
Mix/Groups	6.3	8.9	8.4

Source: BNR and IMF staff calculations.

in lower value-added activities and/or activities that are traditionally not reimbursed. Debusscher and Ansoms (2013) also points out that Rwandan women, as in many countries, disproportionately contribute to significant but largely undervalued care work, for example, household tasks, reproduction, and care of the family and community).

Conclusion

Rwanda has made important advances in promoting gender equality through various policy and institutional initiatives, and strong political will. The gains in institutional and policy reforms for gender equality have placed the country among the global leaders in advancing gender equality and have had a pronounced and sustained impact on economic growth. The increased emphasis on gender-responsive budgeting, higher access to finance including through microfinance schemes, and improvements in access to health and education services, provide a good base for enhancing the productivity of women in the economy and eliminating gender-related income inequalities. Various legal reforms have also granted women opportunities to fully participate in economic activities and improve their representation in decision-making positions.

Several opportunities exist to consolidate these gains in making gender equality an integral part of inclusive growth. Female labor force participation beyond the agricultural sector could be enhanced through further advancement of women's access to quality health and education services. In this respect, improving women's access to technical and vocational training could improve economic participation and opportunities beyond agriculture and informal activities. Closing the gap in access to credit in the formal banking sector, would support efforts to advance women's entrepreneurship.

Further narrowing gender gaps will require continued efforts. For the government, this means ensuring that reforms in the formal institutional landscape are commensurate with informal institutional changes (legal, social, or cultural) to enable women to exploit their full economic potential.

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Conclusion and Future Financing for Development

Rwanda's past successes have been notable, but the country has set even more ambitious goals for its future. This planning will demand a number of transitions, which face a set of serious challenges—first and foremost, resource constraints, but also still-low labor productivity, high energy and transport costs, and market size. Reforms needed to achieve these transitions have been identified and have been incorporated into development strategies, which are calibrated to achieve the UN Sustainable Development Goals by 2030. However, financing the strategy itself will be challenging, and official development aid (ODA) continues to trend downward. Innovative approaches, such as de-risking mechanisms, are needed to accelerate the inflow of private resources to make up the difference.

Rwanda's post-conflict growth rebound was uniquely robust. It was based on a post-conflict strategy that emphasized strategic use of international support and strong systems of accountability, ownership, and goal-setting that garnered a robust support system for rapid reform.

Public investment, initially financed by large ODA flows, was carefully selected to improve living standards, creating growth-enhancing infrastructure, and kick-start new economic activities in higher value-added areas. Still-low productivity constrains the development of a more vibrant private sector, which can serve as the engine for growth. Improving domestic productivity and private sector activity will depend on improving education outcomes, reducing input costs, and expanding access to markets.

Rwanda's persistent efforts to bolster domestic resources have rendered tangible results. Relative to its starting point, Rwanda achieved an impressive increase in its tax-to-GDP ratio via, among others, a simplified and highly progressive personal income tax regime, and boosting compliance in all taxpayer segments. However, incentives to attract private investment have undermined some gains in indirect and corporate income taxes.

In the face of waning ODA, Rwanda has implemented policies to encourage greater external private investment and higher-value and diversified exports. These have included macroeconomic policies, notably greater exchange rate flexibility, policies to support domestic production, such as establishment of special economic zones, the Made in Rwanda promotion campaign, and active and targeted marketing by the Rwandan Development Board. Foreign direct investment inflows and exports have increased dramatically and are more diversified, but their potential remains constrained by Rwanda's market size, low labor productivity, and high input costs.

Rwanda's institutions and policy reforms have placed the country among the global leaders in advancing gender equality. The increased emphasis on gender-responsive budgeting, legal reforms, financial inclusion, access to health and education services, and more inclusion in leadership positions have been a good start for increasing the productivity of women and eliminating gender-related income inequalities. Going forward, continued progress will depend on changing socioeconomic and cultural norms to correct women being predominantly employed in lower-value added (and lower-paid) and/or unremunerated activities.

In sum, the country faces four main transitions: transferring the engine of growth from the public/quasi-public activity to private sector-led growth; a more vibrant private sector; offsetting waning ODA with increased inflows of private external resources; bolstering the domestic savings rate; and improving productivity growth through, among other things, improving education and harnessing technology. With this in mind, in 2018 the Rwandan government requested that the World Bank examine reforms needed to effect these transitions and "drive" growth going forward. This resulted in the comprehensive joint Rwandan government–Bank "Drivers of Growth Study," which identified six main reform priorities for the medium term:

- Improving the quality of basic education to bolster productivity and providing more vocational training and higher education that focus on technology and innovation and are better targeted to meet labor demands.
- Developing activity in areas where Rwanda could better serve regional demand for manufacturing and international demand for products and services.
- Agglomerating economic activity in urban areas to help stimulate productivity and diversity of products and services.
- Addressing remaining constraints that disincentivize private investment, such as inadequate infrastructure (electricity, water, internet, affordable financial services), while phasing out public sector-led activities, and pro-

viding more support to private activity in areas of untapped potential, for example, mining.

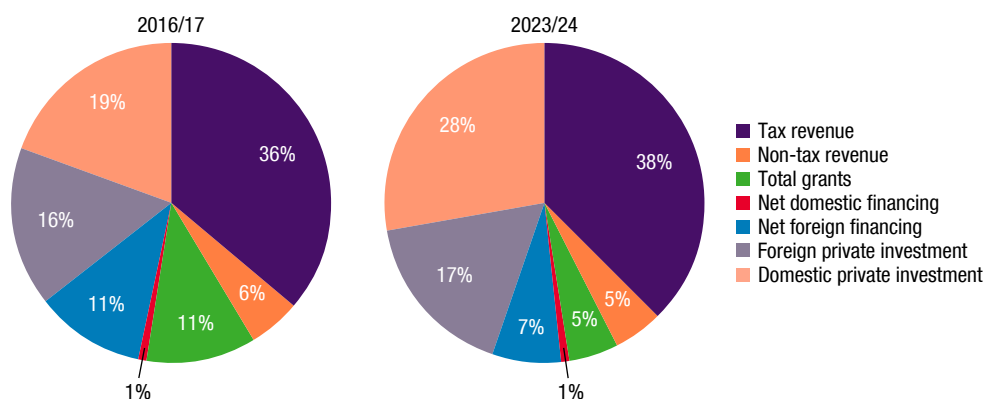
- Improving agricultural productivity, which still has the largest employment share, through more research and training, improving vertical chains that link farmers to markets, and stepped up public investment in irrigation, terracing, and restoring arable land.
- While continuing to strengthen existing policies and institutions, create new institutions/regulation to support a more market-based economy, for example, commercial courts and enforcement of property rights.

The first National Strategy for Transformation (NST-1) is designed to operationalize these priorities while laying the foundation to achieve Vision 2050 and the SDGs—financing, however, will be challenging. The Rwandan government estimated NST-1 costs of roughly US\$39 billion over 7 years. The public share of costs is estimated to be 59 percent, relying on a modest increase in domestic tax revenues, continued waning of ODA grants, and frontloaded external borrowing. The estimates, however, do not necessarily reflect additional spending, aggregated from the costed sectoral strategies. Thus, the costing reflects a top-down exercise of what is realistically feasible, rather than an aggregation of costing of the detailed sectoral strategies. This effectively means partial implementation of the NST-1, with the annual budget process determining the trade-offs. 41 percent of NST-1 costs are assumed to be covered by private investment, implying an increase to about 21 percent of GDP by FY23/24. Although domestic private investment has grown rapidly over the past 15 years—from about 5 percent of GDP in 2000 to about 13 percent in 2018—it would need more than double to meet the NST-1 share of estimated costs. This will be difficult with a private savings rate that is currently below 10 percent of GDP.

IMF staff separately estimated that additional public spending needs for full SDG achievement could be as much as 20 percent of GDP by 2030. A costing case study undertaken by IMF staff estimated that, to reach SDG outcomes comparable to the highest performing peers in the main areas of health education and infrastructure by 2030, significant additional annual spending would be needed. This could amount to additional annual public spending in 2030 of 19.6 percent of GDP.¹

Informal estimates suggest it would be challenging for the public sector to raise this level of financing (Figure 62), on the basis of current trends of ODA grants. Assuming grants stayed constant in percent of GDP terms through 2030 and domestic revenues increased by 4–5 percentage points of

¹IMF Country Report 19/211. This analysis assumes that the current private contribution to costs in health, education, and infrastructure remains constant over time.

Figure 62. Rwandan Government Estimated NST-1 Financing Sources, by Share

Sources: Rwandan authorities; and IMF staff estimates.

GDP (assuming higher income levels), then the remaining financing gap in 2030 could be about 7.5 percent of GDP.² However, assuming the downward trend of ODA grants continues, the annual financing gap could be as high as 14 percent of GDP by 2030.

The Rwandan government is working to alleviate financing constraints through more aggressive efforts to attract private investment. The government's efforts to attract private investment, including through its participation in the Compact with Africa, are paying off. The Rwandan Development Board reports substantial new FDI in areas such as tourism, construction materials, irrigation, and light manufacturing. However, directing private investment into areas important for SDG achievement is more difficult, given the longer-term

nature of returns. In this respect, the government is actively seeking to use ODA "de-risking" instruments to leverage more private resources, while avoiding assuming further financial risks on the public balance sheet. This involves changing the risk-return ratio to make developmental projects more feasible for external investors, tapping into the vast pool of global private savings (Figure 63).³

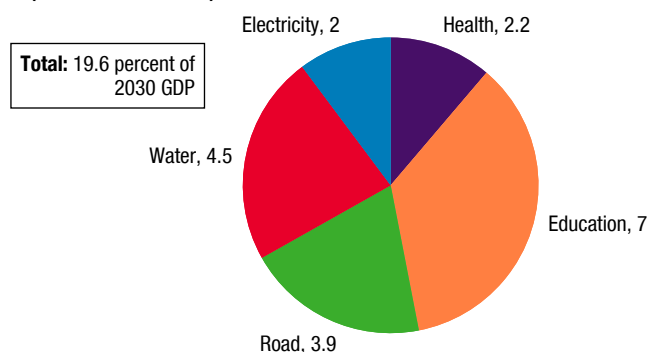
If Vision 2050 could be fully implemented, its ambitious growth objectives are possible. Setting aside the question of absorptive capacity, reaching the Vision 2050 goal of high-income by 2050 is ambitious. It would require that

²Assuming gross external financing of 7 percent of GDP by 2030.

³See OECD (2018a) for specific examples of blended finance in practice. De-risking instruments tend to work better for infrastructure projects (electricity, roads, water) than for human capital building (health, education) which has a longer-term payoff.

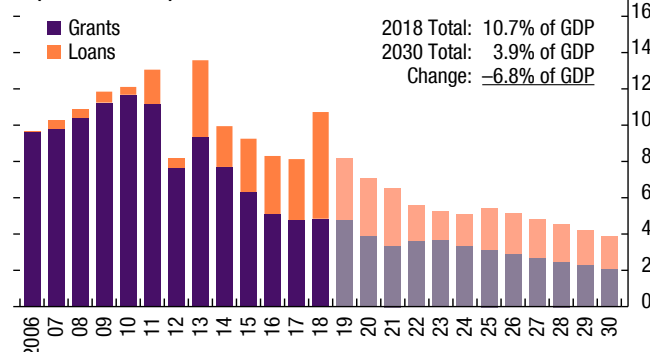
Figure 63. IMF Staff Estimated SDG Costs and Sources of Financing

**1. Estimated Additional Spending Needs in Rwanda
(Percent of 2030 GDP)**



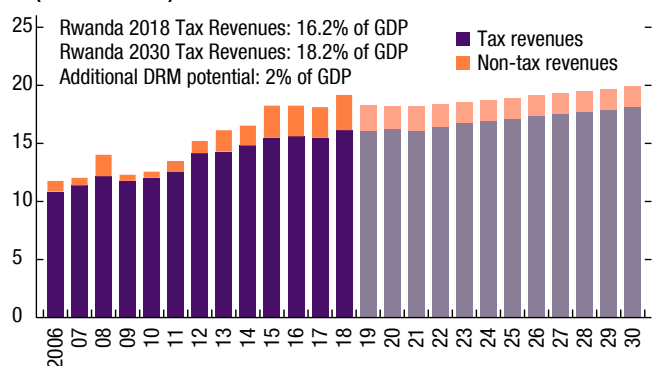
Source: Staff calculations.

**2. Rwanda: Grants and Concessional Loans, Net
(Percent of GDP)**



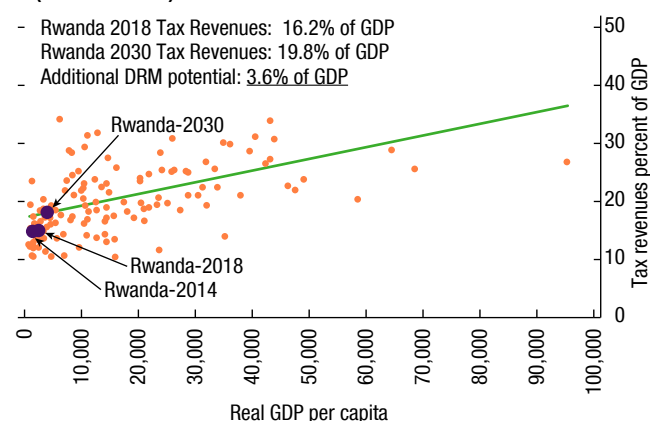
Sources: Rwandan authorities; and staff calculations.

**3. Rwanda: Domestic Revenues
(Percent of GDP)**



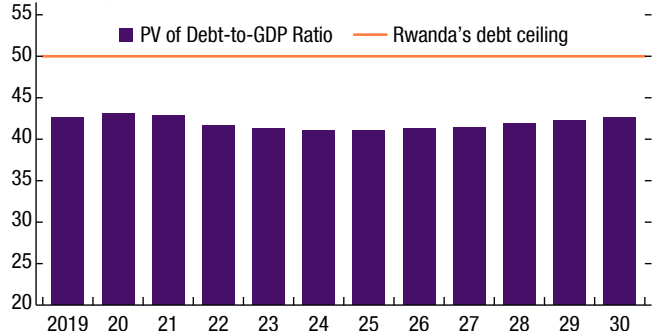
Sources: Rwandan authorities; and staff calculations.

**4. Rwanda: Domestic Revenue Mobilization Prospects
(Percent of GDP)**



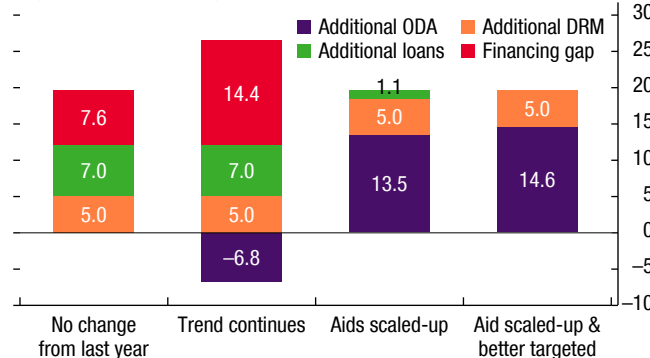
Sources: Penn World Tables 9; IMF WEO database; and staff calculations.

**5. Macroframe PV of Debt-to-GDP Ratio
(Percent)**



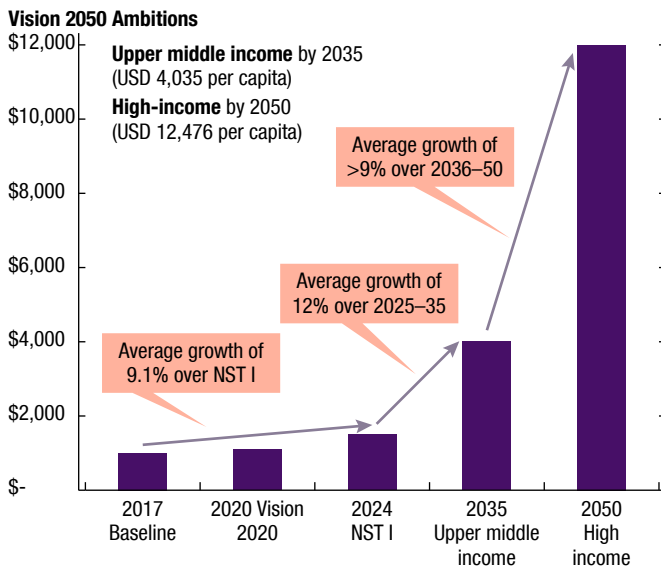
Sources: Rwandan authorities; and staff calculations.

**6. Financing Gap
(Percent of 2030 GDP)**



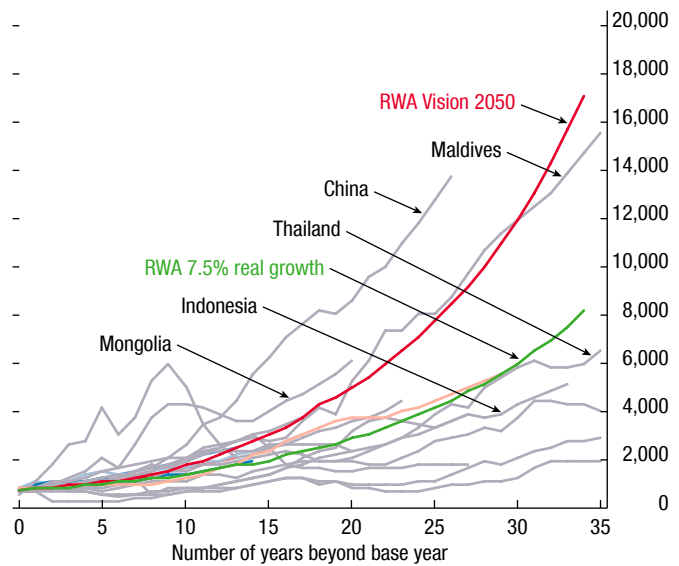
Sources: Rwandan authorities; OECD; and staff calculations.

Figure 64. Rwanda: Targeted Growth



Source: Rwandan authorities.

Figure 65. GDP per Capita
(Current prices, USD)



Source: IMF WEO database.

Rwanda sees average real GDP growth rates higher than those observed for emerging Asia during its rapid growth phase. However, Rwanda's growth rate has already averaged 7.8 percent since 2000. If growth could be sustained even at that level, through productivity gains and sustained investment, Rwanda should, at a minimum, reach upper-middle-income status by 2050 (Figures 64 and 65).

Annex 1. Synthetic Control Methodology

In this paper, we follow and expand on the methodology in the IMF April 2019 *Regional Economic Outlook: Sub-Saharan Africa*, using data from the IMF *World Economic Outlook*. This methodology was also used by Abadie and Gardeazabal (2003). The purpose of the methodology is to craft a synthetic, counterfactual “non-conflict” growth path for a conflict-affected country and compare that path to the actual growth path, in order to estimate the costs of the conflict in terms of economic output loss.

The methodology requires choosing comparator countries to combine into a control group. Each of the comparator countries resembles certain aspects of the conflict-affected country prior to the onset of the conflict. Then, a weighted average of the comparator countries’ growth path is constructed to create a “synthetic” non-conflict growth path of the conflict-affected country. Another way to think about the approach is to consider that the comparator set creates a “synthetic” country, based on the conflict-affected country, that never experiences the conflict. The synthetic country’s growth path, based on a statistical construct, begins to depart from that of the conflict-affected country in the first year of the conflict. Comparing the synthetic growth path with that of the actual growth path of the conflict-affected country can be seen as a proxy for the cumulative estimated loss of economic output, at any given time after the onset of the conflict

The control group of countries is chosen based on per capita GDP (PPP terms), trade openness, growth rates of trading partners in the year preceding the conflict, and growth rates of the country in the four years preceding the conflict. The comparator countries must also be conflict-free for several years prior to the outbreak of conflict in the country in question. Certain factors, such as geographical proximity to or similarity in culture or history with the treated country, are not taken into account. The methodology does allow for some flexibility in determining the control group, but the key is to identify

Annex Table 1. Conflict Episodes

Country	Start Year	Event Description
Rwanda	1990	Social tensions building in 1990, resulted in genocide in 1994.
Liberia	1990 ¹	Civil war which lasted till 1997
Sierra Leone	1991	Civil war which lasted till 2002
Burundi	1993	Civil war which lasted till 2005
Democratic Republic of Congo	1996	First Congo War from 1996 to 1997, followed soon by the Second Congo War in 1998
Republic of Congo	1997	Civil war which lasted till 1999
Ethiopia	1998	Eritrean - Ethiopian War which lasted till 2000
Eritrea	1998	Eritrean - Ethiopian War which lasted till 2000
Guinea-Bissau	1998	Civil war which lasted till 1999
Mali	2012	Northern Mali conflict, peace treaty signed in 2015
Central African Republic	2013	Civil war, ongoing

Source: IMF Regional Economic Outlook: Sub-Saharan Africa, Online Annex (April 2019).

Note: List of all conflict episodes used in the counterfactual analysis using pre-conflict WEO growth projections and the synthetic control method. Liberia was excluded for the analysis using WEO projections as data on projections are only available after 1990. Eritrea was excluded from the synthetic control sample as other control variables were not available.

¹The civil war in Liberia started on December 24, 1989. As the conflict started so late in the year, 1990 is used as the start date of the episode as the impact on growth only.

conflict-free countries that statistically resemble the country in question prior to the outbreak of conflict. The future profile of the control group countries, as a matter of definition, is not taken into account.

Most conflicted-affected countries do not recover the cumulative output losses, that is, their per capita GDP level never reaches the level of that of the “synthetic” country. This is particularly true since many conflict-affected countries fall into a “conflict-trap” where past conflicts make future conflicts more likely, causing an even greater deviation from the growth path of the synthetic country. It is important to underscore that—using this methodology—Rwanda’s growth path is not being directly compared to the other conflict-afflicted countries, rather its cumulative estimated loss of output due to the conflict is being compared to those of the other countries.

For this paper, synthetic control groups were re-constructed for eight countries in sub-Saharan Africa (Burundi, Democratic Republic of the Congo, Ethiopia, Guinea-Bissau, Liberia, Republic of Congo, Rwanda, and Sierra Leone). The composition of the control group and weightings are shown for each country in the charts comparing the synthetic growth path with the actual growth path in Chapter 1. The starting dates of conflict are shown below. Even though the genocide itself was 100 days, Rwanda’s conflict period is shown as four years, reflecting the building of political and social tensions and their economic impact over the preceding years. However, as can be seen, even though Rwanda’s conflict was more severe than the other countries, its conflict period was shorter than most.

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